TRADE RECIPROCITY

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 2067, S. 2071 and S. 2094

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TRADE RECIPROCITY

WEDNESDAY, MARCH 24, 1982

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 9:35 a.m., in room 2221, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Dole, Danforth, Roth, Heinz, Grassley, Symms, Bentsen, Matsunaga, Moynihan, Bradley, and Baucus.

Also present: Senator Mitchell.

[The press release announcing hearings and the prepared statements of Senators, Danforth, Dole, Heinz, Bentsen, Boren, and Baucus follow:]

[Press Release]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE SETS HEARING ON S. 2094 AND OTHER "RECIPROCITY" BILLS

The Honorable John C. Danforth, Chairman of the Subcommittee on International Trade of the Senate Committee on Finance, announced today that the Subcommittee will hold a hearing on Wednesday, March 24, 1982 on S. 2094 and other trade reciprocity bills. Senator Danforth announced that, at this hearing, the Subcommittee will hear only from Administration witnesses.

The hearing will begin at 9:30 a.m. in Room 2221 of the Dirksen Senate Office Building.

PREPARED STATEMENT OF SENATOR JOHN C. DANFORTH, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE

Today the Subcommittee will hear testimony from the Administration on S. 2094, the Reciprocal Trade and Investment Act, and on other trade "reciprocity" bills.

Among the proposals before the Subcommittee today, some employ the term and the concept of reciprocity more emphatically than others. Still, they share a common denominator—namely, that the United States must do more to expand its access opportunities in markets overseas. I believe the sponsors of the legislation under consideration share a conviction that the United States must seek nothing more, and nothing less, than the opportunity to compete on an equal footing in world markets.

A few of the bills focus on the need to protect our rights under the General Agreement on Tariffs and Trade. Some stress the need to advance U.S. trade interests in areas not covered specifically by existing agreements, such as investment and services. Most call on the Administration to employ more actively the provisions of current law to combat foreign unfair trade practices.

S. 2094, I believe, encompasses each of these concerns. Regardless of the details of the bill that I believe the Committee will ultimately report to the Senate, there is a recognition by this Committee, by the Congress, and by the American people that the United States should be more aggressive in the pursuit of our trade interests abroad.

The apparent consensus that has been building within this Committee has been evident in a number of ways: Although this is the first formal "reciprocity" hearing to be conducted by the Trade Subcommittee, each of our last three hearings has somehow touched upon reciprocity issues. Further, of the twenty Members of the Committee on Finance, thirteen are cosponsoring at least one of the five broad market access bills being considered by this Subcommittee today.

Before I introduce our first witness, I should like to say a word on behalf of the word "reciprocity." In the last few months, this beleaguered term has gotten a bad name. The fact is, "reciprocity" is a long-standing concept in the vocabulary of trade—not a new word—notwithstanding the recent attention lavished on the term. Reciprocity, as defined by Webster's Dictionary is "a mutual exchange of privileges."

In trade policy, reciprocity means that the United States ought to enjoy—and actively seek—the same degree of commercial opportunity that we routinely accord to others. To equate this concept with protectionism is indeed far-fetched. Observers who are troubled by reciprocity in trade, I suggest, give our government no credit for the ability to deal with other nations in a businesslike and responsible manner—they fear that even to assert American rights is to practice protectionism.

I submit that the U.S. record in trade is second to none in responsible commitment to a liberal and open world trading system. Moreover, I would assert that marginally productive U.S. carping on an ad hoc basis at valued allies, in the end, is demeaning and encourages others to conclude that the U.S. does not take its own rights very seriously.

Finally, the concept of reciprocity is a basic tenet of the General Agreement on Tariffs and Trade, and enjoys a distinct place in U.S. trade law—beginning with the Reciprocal Trade Agreement Act of 1934 and following through with the Section 126 of the Trade Act of 1974.

Most recently, reciprocity was a key component of the joint communique issued by then-STR Bob Strauss and his Japanese counterpart, Minister Ushiba, in January 1978. In that document, both governments agreed "that their joint objective was to achieve basic equity in their trading relations by affording to major trading countries *substantially equivalent competitive opportunities on a reciprocal basis* (emphasis added)." The communique also makes reference to the desirability of precisely what we are here to achieve: "parity in * * * trading relations and equivalent openness of * * * markets."

PREPARED STATEMENT OF SENATOR BOB DOLE

Mr. Chairman: At today's hearing we will receive the administration's views on legislation which you and other Senators on the Finance Committee have introduced in recognition of the extremely serious problems which exist in our international trading relationships. In examining these bills it is apparent to me that common themes run through many of them, and that the opportunity may exist to develop a common approach to the problems they address.

There is a genuine concern that neither our domestic laws nor the international trading system are structured or are being implemented in a manner that will ensure equity in our trading relations and maximize benefits to U.S. commercial interests. I believe that many members of the committee strongly favor increased efforts by the executive branch to identify the barriers which inhibit U.S. trade and a more active and forceful effort to obtain their elimination.

There are well-reasoned and responsible concerns that these laws and agreements are not sufficiently oriented toward areas, such as the service sector and restrictions on foreign direct investments, where the United States has increased economic interests but seems to be afforded decreased protection. Many Senators would certainly like to see our interests in sevices—which probably constitutes the largest overall U.S. employment sector—more adequately provided for through enhanced U.S. Government efforts and more fair international treatment.

In addition, there is a growing awareness and concern that the industrial policies of both our major trading partners and many of the developing nations cause severe distortions of the international trade system. These distortions affect the competitiveness of entire U.S. industries and will affect the development of generations of products.

The individual bills pending before the committee seek to deal with various aspects of these problems. I know that the administration has problems and reservations about individual aspects of each of these bills, but I feel certain that there are also aspects of each which they can support.

Mr. Chairman, it is my hope that in today's testimony the administration will be reasonably specific about how they would like to address the concerns which the members of this committee have raised, and will agree to work with you and other Senators who have been so active in this area perhaps to come up with suggestions for a comprehensive piece of legislation.

I believe this can be done, but I am not suggesting that an unlimited amount of time is available for that such an attempt should be viewed as an avenue for delaying consideration of the bills before the committee. Rather, I believe Mr. Chairman, that a genuine attempt should be made to draft a comprehensive bill for the consideration of the committee and the administration to see if an agreement can be achieved on common approaches to the increasingly serious issues which are before us.

PREPARED STATEMENT OF SENATOR JOHN HEINZ

Mr. Chairman, there has been so much discussion and controversy about the term "reciprocity" that I think it is imperative each of us concerned with the concept be absolutely clear about its meaning.

In my judgment, the case for it is clear—based on two fundamental facts over which there has been little disagreement.

First, the free market is the most efficient and equitable means of conducting international commerce and allocating scarce resources. History is littered with the failures of those who sought a better way. Today an increasing number of socialist economies are learning this bitter lesson firsthand.

Second, even in what we used to call the Free World, the free market is disappearing. Protectionist barriers are going up. Mercantilism is again becoming fashionable. Nations seek to protect their industries of the future until they can compete and then unleash them at cut-rate prices to drive others out of the market. They protect their industries of the past through subsidies and dumping, exporting their unemployment as well as their production.

It is ironic that as tariff barriers reach historic low levels, protectionism is a greater threat than ever due to the proliferation of non-tariff barriers on goods, services, and investment.

Reciprocity is a response to this development, but it is a tactic, a means, to our free market goal, not an end in itself. The idea of reciprocity can best be summarized by a series of principles.

It is intended to open others' doors, not shut ours.

It is concerned with market access, not absolute trade levels or bilateral balances.

It approaches trade problems broadly, not sectorally.

It provides tools which are discretionary, not mandatory.

It is concerned with barriers to services and investment as well as goods.

It is directed at many countries, not just Japan.

It is intended to strengthen the multilateral process, not weaken it.

These principles make clear the tactical nature of reciprocity. The proposed legislation is to be used as leverage to achieve our open market objectives. In some cases, like Japan, I have no doubt that the authority provided will have to be used. In other cases, reciprocity legislation will help bring negotiations to a satisfactory conclusion by making clear what actions can be taken if negotiations fail and by creating the presumption that they will be taken in that event.

There are those who argue that reciprocity violates the most-favored-nation principle, that it "bilateralizes" trade. This criticism is ironic in view of the Administration's Caribbean Basin Initiative, which is an explicit denial of MFN. In fact, reciprocity is intended to achieve the same objective as MFN—more open markets more broadly in the world.

In the short run, it suggests more aggressive tactics than we have employed thus far in trade disputes, but in the long run it leads us—more effectively—in the same direction.

I suspect considerable time will be spent today and at future hearings discussing the value of the GATT and the multilateral process in general. I supported that process during the MTN, and I support it now. But that does not mean we should accept it uncritically. Its scope is incomplete, particularly with respect to investment and services issues, and its procedures do not work in a timely and effective way.

Our ultimate obligation must be to our citizens and our economic strength. We serve those interests, and the larger interest of an open world economy, by insuring that the multilateral process is strong enough to make free trade a truly two-way

street. That is the purpose of reciprocity legislation, and that is why we are here today.

PREPARED STATEMENT OF SENATOR DAVID L. BOREN

I enthusiastically support Chairman Danforth's bill, S. 2094, the Reciprocal Trade and Investment Act of 1982, which I have cosponsored. If enacted into law, this legislation would demonstrate to our trading partners that the United States is willing to take action to ensure that American products are allowed equal access to foreign markets. I believe that this particular bill is the most appropriate first step available to Congress in our pursuit of equity in America's international trade relationships.

Reciprocity must become a key objective of U.S. trade policy, for without it certain trading partners will continue to take advantage of our accessible domestic markets while denying us access to their own. The most graphic example of this is Japan. The Japanese utiltize an elaborate maze of tariff and non-tariff barriers which impede access to their markets. While trade with Japan has grown significantly over the last decade, imports from Japan have far outpaced our own exports to them. These imports have increased so much that our trade deficit with the Japanese this past year rose to $18 billion and is projected to soar to over 425 billion in 1982. As evidence of the easy access the Japanese have been granted to our markets, sales of automobiles from Japan more than doubled from 1975 to 1981 when they accounted for 22 percent of new car sales. Indefinite layoffs in the U.S. auto industry have risen to nearly 300,000.

In comparison, the quantities of certain agricultural exports to Japan are limited by an extensive system of import barriers. Beef exporters in my home state of Oklahoma are on the verge of giving up any hope of exporting to Japan. One reason for this is that the government of Japan openly restricts beef imports through the use of domestic pricing mechanisms, government buying and import quotas. Japan establishes a General Beef Quota which determines the amount of beef it will import annually. Last December, Japan reduced this general import quota for beef by 4,000 tons for the period from January to June, 1982, thus restricting our access to their market even further.

Within the General Quota is a special quota for high quality beef. During the 1979 round of the Multilateral Trade Negotiations, Japan agreed to increase its importation of high quality beef from 16,800 metric tons in 1979 to 30,800 metric tons by 1983. When compared with the potential demand for high quality beef within the Japanese market, this concession becomes less significant. Because per capita consumption of beef in Japan is so low, greater access to the Japanese market would most likely stimulate a large increase in demand among Japanese consumers for high quality U.S. beef.

Ninety percent of Japan's beef quota is controlled by the Livestock Industry Promotion Corporation (LIPC). The LIPC imposes a stringent series of requirements for U.S. meat packers to follow if they are to export their beef to the Japanese. The application and approval process for this preferred brand list generally takes up to two years to complete. This system favors large meat packers and discriminates against smaller U.S. suppliers. Out of more than 6,000 federally inspected meat slaughtering and processing facilities in the U.S., only 20 plants have been approved by the LIPC. After a plant is approved, it must adhere to several costly and disruptive import regulations which exceed standard U.S. Department of Agriculture requirements.

The Japanese impose stiff import duties and other charges on U.S. beef, raising its end-user cost dramatically and weakening the competitiveness of our beef among Japanese consumers. By the time all of the charges have been applied, U.S. beef imported into Japan costs three to five times its delivered price. The agriculture sector of our economy desperately needs the additional income to be gained from exporting but is continuing to suffer because the Japanese deny access to our beef, and imported commodity which would also serve the interest of the Japanese consumer.

Charges Against U.S. Beef Entering Japan, U.S. Tenderloin

	Per pound
1. Imported price (CIF)	3.74
2. GOJ duty (25 percent on CIF	4.68
3. Import expenses (5 percent)	4.91
4. Surcharge to hotel	5.48

	Per pound
5. Wholesaler markup:	
To hotel (8 percent)	5.92
To retailer (10 percent)	6.02
6. Hotel markup (30 percent)	7.69
Retail markup (25 percent)	7.53
7. Hotel price (ala carte):	
Cafeteria	10.00
Main Dining Room	13.07

Source: Meat Export Federation.

Besides being taken advantage of through international trade, the Japanese have not borne their share of the burden for the military defense of our Pacific Alliance. While assisting the Japanese in the rebuilding of their economy following World War II, the U.S. assumed the greatest share of the responsibility for defending this alliance. However, in view of the economic revitalization we have made possible for the Japanese, they have repaid us by spending less than one percent of their gross national product on defense since the late 1960's, while the U.S. has spent between six and ten percent of its GNP on defense during that period. The average American taxpayer spends $759 per year on defense while the average Japanese spends $98 per year. The Japanese must bear their share of the burden for their own national security.

The issue we are dealing with is much more complex than a numbers game comparing tons of beef to automobiles. It is a matter of fairness in these relationships. It is no longer possible for me to stand by and blindly support a policy of free trade when none of our trading partners are practicing it, but are instead depriving us of the additional income and jobs which come from exporting.

Some of my colleagues have expressed their doubts about the desirability of a "reciprocity" policy. They contend that we have not exhausted our tools of negotiation. I believe that through S. 2094 we can dramatically strengthen our negotiating position without violating any agreements that the U.S. has entered into. It is essential that we modify our negotiating position in the ways provided for by S. 294, or else we will continue to get trapped within the maze of nonproductive procedural disputes which have characterized many of our trade negotiations in the past. I believe that all of the talk about our trade problems has gone on long enough. Action is what we need and action is what we will get if we report out S. 2094 and work to see that it is enacted into law.

Prepared Statement of Senator Max Baucus

Today we consider proposals to strengthen the American position in international trade. These hearings come at a sensitive time. The world economy is in disarray. Europe and the United States are in a deep recession. There is uncertainty about the future of the Japanese economy. There are tensions surrounding economic policy and trade.

We face a difficult challenge. We need to open foreign markets. We need to make our industries more competitive. We need an effective and subtle diplomacy, to reduce trade problems when the natural tendency might be to worsen them.

Let me say a few words about Japan. What's needed is honesty between friends.

Assume someone had been asleep for 30 years. He woke up and asked about United States-Japanese relations.

He would learn that the Government of Japan spends less than 1 percent of its GNP on defense. The United States spends much more. The United States carries the military burden of United States-Japanese relations.

Our friend might conclude that since we carry the military burden, the Japanese might carry some of the economic burden. For example, Japanese markets might be more open than American markets.

Wrong. Japanese markets are less open than American markets. Japan has an $18 billion balance of trade surplus with the United States. Last year, Japanese exports to the United States increased by 23 percent. Yet, Japanese imports increased by only 2 percent.

A member of the Japanese Diet recently told me a story that illustrates the problem. His wife was in an American supermarket, and bought $6 worth of beef. She noted that the same beef would cost $30 in Japan.

There are other examples, and I need not belabor the point. I would add that Japan is not a monolith. There are Japanese officials, especially urban members who want to open their markets. Something must be done. The American people are

increasingly angry at the perception—which is at least partly accurate—that we are being shortchanged. We carry the military burden—yet we also carry too much of the economic burden. Today we are considering the proposed reciprocity legislation. I must say that I have some reservations. We don't know how it will work out. Will it open markets? Or close markets? At this sensitive and politically volatile time, it could open a Pandora's Box.

I also know that something must be done. Where do we go from here? Let me state some of the considerations that I hope we will discuss today:

1. Has the United States been aggressive in pursuing our rights under the GATT? I don't think we have, which is why I am inclined to support Senator Bentsen's bill. How far have we gone in asserting our rights? 10 percent? 50 percent? How can we do more? Shouldn't we make every possible effort, under the multilateral framework of GATT, before moving toward more bilateral solutions?

2. Where do we stand in negotiations with Japan? What does the Japanese Foreign Minister mean when he promises to make the "utmost effort" to resolve our trade problems? Will there be significant progress before this summer? Or will it be necessary to act on reciprocity—or something similar—to convince the Japanese that we are serious?

3. How do these questions interact with our political alliances? Can economic tensions, including interest rates and trade, endanger the unity of the alliance? What if every nation enacted reciprocity legislation?

4. Can we work towards a unique role for Japan, within the alliance? Can they make an economic contribution, as a special responsibility befitting a great nation? I believe that Japan can do more than any other nation to strengthen the alliance, and build goodwill and friendship. Japanese leadership is urgently needed.

5. Trade is only the tip of our economic iceberg. Our problems are much deeper. We need to lower interest rates, to modernize, invest, and save more; to move new technologies and provide skilled labor. To put this in context: is trade 5 percent of the problem? 20 percent? What about the other problems?

We may be standing at an historic crossroads. If Japan takes sincere and significant action, a positive ripple effect will be felt throughout the West. If we can defend open trade at this difficult time—consumers and business, in Japan and America—will be the winners.

Time is short, and the stakes are high.

Senator DANFORTH. Today the subcommittee will hear testimony from the administration on S. 2094, The Reciprocal Trade and Investment Act, and other trade reciprocity bills.

Among the proposals before the subcommittee today, some employ the term and the concept of "reciprocity" more emphatically than others. Still, they share a common denominator—namely, that the United States must do more to expand its access opportunities in markets overseas.

I believe the sponsors of the legislation under consideration share a conviction that the United States must seek nothing more, and nothing less, than the opportunity to compete on a footing equal to other countries in world markets.

A few of the bills focus on the need to protect our rights under the General Agreement on Tariffs and Trade. Some stress the need to advance U.S. trade interests in areas not covered specifically by existing agreements, such as investment and services. Most call on the administration to employ more actively the provisions of current law to combat foreign unfair trade practices.

S. 2094, I believe, encompasses each of these concerns. Regardless of the details of the bill that I believe the committee will ultimately report to the Senate, there is a recognition by this committee, by the Congress and by the American people that the United States should be more aggressive in the pursuit of our trade interests abroad.

The apparent consensus that has been building within this committee has been evident in a number of ways. Although this is the

first formal reciprocity hearing to be conducted by the Trade Subcommittee, each of our last three hearings has somehow touched upon reciprocity issues.

Further, of the 20 members of the Committee on Finance, 13 are cosponsoring at least 1 of the 5 broad market-access bills being considered by this subcommittee today.

Before I introduce our first witness, I should like to say a word on behalf of the word "reciprocity." In the last few months this beleaguered term has gotten a bad name. The fact is, reciprocity is a longstanding concept in the vocabulary of trade, not a new word. Notwithstanding the recent attention lavished on the term, "reciprocity" is defined by Webster's Dictionary as a "mutual exchange of privileges."

In trade policy, reciprocity means that the United States ought to enjoy—and actively seek—the same degree of commercial opportunity that we routinely accord to others. To equate this concept with protectionism is indeed farfetched.

Observers who are troubled by reciprocity in trade, I suggest, give our government no credit for the ability to deal with other nations in a businesslike and responsible manner—they fear that even to assert American rights is to practice protectionism.

I submit that the U.S. record in trade is second to none in responsible commitment to a liberal and open world trading system. Moreover, I would assert that marginally productive U.S. carping on an ad hoc basis at valued allies, in the end, is demeaning and encourges others to conclude that the United States does not take its own rights very seriously.

Finally, the concept of reciprocity is a basic tenet of the General Agreement on Tariffs and Trade, and enjoys a distinct place in U.S. trade law—beginning with the Reciprocal Trade Agreement Act of 1934 and following through with section 126 of the Trade Act of 1974.

Most recently, reciprocity was a key component of the joint communique issued by then STR, Bob Strauss, and his Japanese counterpart, Minister Ushiba, in January 1978. In that document both governments agreed "that their joint objective was to achieve basic equity in their trading relations by affording to major trading countries substantially equivalent competitive opportunities on a reciprocal basis."

The communique also makes reference to the desirability of precisely what we are here to achieve—parity in trading relations and equivalent openness of markets.

Senator Heinz.

Senator HEINZ. Mr. Chairman, thank you.

Mr. Chairman, as you have observed, there has been much discussion and controversy about the term "reciprocity," and I think it is imperative that each of us concerned with the concept be absolutely clear about its meaning.

In my judgment, the case for reciprocity is clear, based on two fundamental facts over which there has been little disagreement.

The first fact is that the free market is the most efficient and equitable means of conducting international commerce and allocating scarce resources. History is littered with the failures of those

who sought a better way. Today an increasing number of socialist economies are learning this bitter lesson firsthand.

Second, even in what we used to call "the free world," the free market is disappearing. Protectionist barriers are going up. Today our trading partners are dangerously undermining the principles of an open world trading system by resorting to the use of nontariff barriers, subsidies, performance requirements, and other such trade distorting practices.

Mercantilism is again becoming fashionable. Nations seek to protect their industries of the future until they can compete and then unleash them at cutrate prices to drive others out of the market. They protect their industries of the past through subsidies and dumping, exporting their unemployment as well as their production.

Reciprocity is a response to this development, but it is a tactic, it is a means to our free market goal, not an end in itself.

The idea of reciprocity can best be summarized by a series of principles:

It is intended to open others' doors, not shut ours.

It is concerned with market access, not absolute trade levels or bilateral balances.

It approaches trade problems broadly, not sectorally.

It provides tools which are discretionary, not mandatory.

It is concerned with barriers to service and investment as well as goods.

It is directed at many countries, not just Japan.

It is intended to strengthen the multilateral process, not weaken it.

These principles make clear the tactical nature of reciprocity. The proposed legislation is to be used as leverage to achieve our open market objectives.

In some cases like Japan I have no doubt that the authority provided will have to be used. In other cases reciprocity legislation will help bring negotiations to a satisfactory conclusion by making clear what actions can be taken if negotiations fail and by creating the presumption that they will be taken in that event.

In my view this Congress must enact the tough trade negotiating authority provided by reciprocity. Otherwise Mr. Chairman, I fear that Congress, in the alternative, will act to close American markets to those countries whose trade barriers unjustifiably obstruct the flow of American goods, services, and investments into their markets while they use a variety of tactics, fair and unfair, to outsell American manufacturers in this country as well.

In other words, unless reciprocal market access becomes a reality, I can foresee the legislating of outright protectionism in this country.

There are those, Mr. Chairman, who argue that reciprocity violates the most-favored-nation principle, that it bilateralizes trade. This criticism is ironic, in view of the administration's Caribbean Basin Initiative which is an explicit denial of MFN. In fact, reciprocity is intended to achieve the same objective as MFN—more open markets, more broadly in the world.

In the short run it suggests more aggressive tactics than we have employed thus far in trade disputes, but in the long run it leads us more effectively in the same direction.

I suspect considerable time will be spent today and at future hearings discussing the value of the GATT and the multilateral process in general. I supported that process during the MTN; I support it now. But that does not mean we should accept it uncritically. Its scope is incomplete, particularly with respect to investment and services issues, and its procedures do not work in a timely and effective way.

Our ultimate obligation must be to our citizens and our economic strength. We serve those interests and the larger interest of an open world economy by insuring that the multilateral process is strong enough to make free trade a truly two-way street.

That is the purpose, Mr. Chairman, in my judgment, of reciprocity legislation. That, I hope, is why we are all here today.

Thank you.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman.

I commend you and Senator Heinz for your leadership in this area and for introducing legislation to deal with the very real trade problems which we confront.

Free trade is an ideal which we all share, indeed it is shared by most governments and people around the world. But even when it is realized, its benefits and its burdens are not equally distributed nor are they equally borne.

It is important that we devise policies that accomplish our objective in a fair and equitable manner and in a manner that takes into account the very real human effect that our trade policies sometimes cause.

At this very moment a group of Maine farmers are picketing along the border with Canada. Their livelihoods have been taken away, their lives devastated by a tremendous increase in the export of Canadian-produced potatoes in the American market. We are in literal danger of losing what has been one of the most important industries in my home State of Maine because of this serious and critical problem.

So I think it is very important that we carefully examine the proposals that have been made by Senators Danforth, Heinz, and others to try to bring about a balance, a sharing of the burden, a distribution of the benefits among all our people as a result of the trade policies that we pursue.

I look forward to hearing the testimony of the Secretary, the Ambassador, and Senator Glenn, and of course the comments of the other Senators.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Mr. Chairman, I think we are making history at this hearing. It has been our practice, I believe, to have the protectionist legislation proceed the depression, as in the case of Smoot-Hawley. Now we are going to have the depression proceed the protectionist legislation. But there is nothing like new ways, new times. [Laughter.]

I do want to say, and have a chance to say to my friend Ambassador Brock, and we see Secretary Baldrige here, you are hearing

from your own party that the Congress is going to pass protectionist legislation. You know how much you oppose that. But what are you going to do to prevent it?

The representatives of manufacturers are taking that position, but the labor movement is equally troubled. When we passed the Tokyo round agreements in this Finance Committee, it was on the basis of a firm commitment to the trade union movement, that jobs lost as a result of American negotiations would be protected at some level, that there would be Trade Adjustment Assistance. And the present budget proposes to abolish it altogether.

Don't break promises to organizations that have been around for a century. They have long memories.

The Finance Committee is on the verge of something, a kind of protectionism that hasn't been felt in this body since Smoot-Hawley. For half a century this committee has supported things that I know Ambassador Brock believes in. I hope you will help us continue that.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

I have a statement, Mr. Chairman, that I would like to include in the record, but let me just say that it is interesting to me how Americans still feel our Government is not doing enough to stand up for our country in its dealing with foreign countries.

A group of Montanans were in my office just yesterday. They, on their own, raised this point. I tried to explain to them that we are—the Government, Congress, and the executive branch, in particular—doing much more than we have in the past. But the perception still is that we are not doing enough.

I echo the hidden if not expressed expression of Senator Moynihan which is: Unless the administration and the Congress does more, and unless Japan, EEC, and other countries also do more, there will be protectionist legislation. I think the ball is in the court of Japan, the court of EEC. It is up to them. They have it within their power, I think, to either avoid the kinds of Smoot-Hawley problems that the Senator from New York alluded to, or not avoid those kinds of problems. We want to work in good faith with those countries, but the ball, I think, is in their court, and unless they understand that, regrettably we are going to be going down a road of, if not destruction, at least protectionism and depression.

Senator DANFORTH. Senator Roth.

Senator ROTH. Mr. Chairman, I congratulate you for holding these hearings.

I think the comments that have already been made make it clear that there is much confusion as to what reciprocity does and does not mean.

I think it's true that it can be a form of protectionism, but it also can be a means of opening up markets.

Mr. Chairman, I think it is only fair to look back at what this country has done. The United States has supported free trade and investments on the grounds that it benefited the consumer and our economy. We led the charge for free trade. We hoped that others

would follow our lead. And time after time the United States has been the driving force behind multilateral trade negotiations.

But unfortunately, every time, including the last round, the United States has given more than we have received. Despite a history of seven separate multilateral negotiations, Japan, for example, still maintains a series of import quotas, byzantine custom procedures, and a nearly impossible to penetrate distribution system. The European Community continues to subsidize heavily the export of agricultural products in direct competition with U.S. farmers who are trying to compete fairly for foreign markets.

Canada imposes severe and highly distortive restrictions on foreign direct investment.

Now, it seems to me it is time for these developed countries to "graduate" as we are asking the middle income developing countries to do. I am appalled, frankly, by the extent to which other countries have taken advantage of us. It is high time to right that wrong. That is what much of the reciprocity legislation, including portions of my own Trade in Services Act of 1982, attempts to do. Moreover, I do not believe that enacting legislation which includes the concept of reciprocal opportunities is the beginning of the end for free trade.

Reciprocity is not, as some have claimed, a code word for protectionism. It is not the overthrow of the multilateral trading system and that system's elaborate rules. I am firmly convinced that the United States must begin to demand and must receive equity in our trading relations. Our workers' jobs, our firms' future, our Nation's economic vitality depend upon it.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Senator Roth.

[The prepared statement of Senator William V. Roth, Jr., follows:]

PREPARED STATEMENT OF SENATOR WILLIAM V. ROTH, JR.

I wish to thank the Chairman, Senator Danforth, for convening this hearing on reciprocity legislation. Lately, there has been a great deal of discussion—and much misunderstanding—over what we mean by reciprocity in trade and investment, and I look forward to this hearing as an important step toward clarifying the issues and building an understanding of this country's needs in the evolving trade system.

The United States has long been the most open major market in the world. Foreign goods and services are sold freely by domestic and foreign retailers, wholesalers and services-related operations. Foreign suppliers can freely tap into the U.S. distribution system and reach the same consumers pursued by domestic firms. Foreign investment, as well, remains relatively unfettered by government regulation or restrictions.

The same has not been true elsewhere.

The United States has based its support for free trade and investment on the belief that reliance on market forces would ensure capital availability, the lowest possible prices for goods and services and the greatest possible choice for all consumers. We implemented free trade practices hoping other countries would follow our lead.

Few did.

In bilateral discussions and multilateral fora, the United States has traditionally stressed the benefits of free trade. We have sought greater and greater opening—not closing—of all markets, including our own. We pressed for successive rounds of multilateral trade negotiations under GATT to reduce tariff barriers and, most recently, to agree on codes of conduct for merchandise trade.

In these negotiations, however, the United States was obliged to give more than it received. The Tokyo Round was no exception. Out of that negotiation came codes governing the use of subsidies, government purchasing practices, valuation proce-

dures and other trade measures. We busily signed on to this new discipline and urged our trading partners to do the same.

Some did, and some did not. And some of those who signed on have since honored their obligations, while others have not.

Despite a history of seven separate multilateral negotiations, Japan, for example, still maintains a series of import quotas, byzantine customs procedures and nearly-impossible-to-penetrate distribution systems. The European Community continues to subsidize heavily the export of agricultural products in direct competition with U.S. farmers who are trying to compete fairly for foreign markets. Canada imposes severe and highly distortive restrictions on foreign direct investment.

Now, I am not talking here about developing countries with fledgeling infant industries. I am referring to some of the most prosperous nations in the world that, despite their success in agricultural, industrial and service sectors, are unwilling to act like responsible citizens in the world trading community.

There has been much thought given recently to the "graduation" of many of the newly industrializing—or middle income—countries to developed country status and responsibility. While I strongly favor that concept, I would suggest we look first at graduating many of the developed nations that refuse to play fair in trade.

I believe strongly in the principle that no country should be accorded less favorable treatment than that given our "most favored" trading partner. I am appalled, however, by the extent to which other nations have taken advantage of us.

It is high time to right that wrong. That is what much of the reciprocity legislation—including portions of my own Trade in Services Act of 1982 (S. 2058)—attempts to do. For many of us in Congress, reciprocity aims to restore the balance, to close the gap between what the United States gives and what other countries only promise. It means equivalency of opportunity to trade and invest, compete fairly, on an equal footing, with local manufacturers and suppliers.

While I agree with those who advise country-by-country, product-by-product, measure-by-measure balancing is in no country's best interests, I do not believe we can continue to afford to carry the free trade banner alone.

Moreover, I do not believe that enacting legislation which includes the concept of reciprocal opportunities is the beginning of the end for free trade. Reciprocity is not, as some have claimed, a codeword for protectionism. It is not an excuse for wildly creating barriers to imports as a means of contending with domestic economic pressures. It is not the overthrow of the multilateral trading system and that system's elaborate rules.

Rather, support for reciprocity among the American people and within Congress is an effort to convince other countries to abide by those carefully crafted and arduously negotiated agreements. It is an effort to convince our trading partners that all of us can win if markets to goods, services and investments are open.

I am firmly convinced that the United States must begin to demand—and must receive—equity in our trading relations. Our workers' jobs, our firms' futures and our nation's economic vitality depend on it.

Our first witness today, I am pleased to say, is our colleague, Senator Glenn.

STATEMENT OF HON. JOHN GLENN, SENATOR FROM THE STATE OF OHIO

Senator GLENN. Thank you very much, Mr. Chairman, and I want to thank you for this opportunity to express my views on foreign trade before your subcommittee.

I also want to take this opportunity to express my appreciation for your personal leadership on these trade issues. We have worked together on the auto import resolution last session, and today we are joined in support of the Reciprocal Trade and Investment Act.

Both these initiatives address serious problems involving difficult international political questions. Your leadership in these areas has been forceful, but even more important, it has been fair—and for that I commend you.

Someone once defined a freetrader as a politician who's not up for reelection. And, while there may be some truth to that—on both sides of the oceans, I might add—I don't think that protection-

ism is a fair characterization of the trade measures that we are currently considering.

On the contrary, our concern is to bring about a global trading system that is increasingly free as well as increasingly fair. For too long now, other signatories to international trade agreements have honored the principle of comparative advantage in theory but ignored it in practice.

But under the agreements, America has a right to expect adherence to the principle of comparative advantage. And I say that asserting our right is not protectionist. For too long now our posture in foreign trade has been reactive rather than active, and we have reacted to a flood of foreign imports instead of acting to assure fair treatment for American exports. Again, I say that asking other countries to play by the same rules we observe is not protectionist.

Our competitive position in the world economy has deteriorated in recent years because we have failed to develop a foreign trade policy responsive to the changing context of international trade.

Last year our merchandise balance of trade deficit was nearly $40 billion, and this year's figures are even worse. Now, these deficits are not simply the result of our trading partners' practices. In many areas we are not now as competitive as we once were nor as competitive as we should be.

But let me say this—given our system of private enterprise, a proper amount of research and development, and enough capital to translate American creativity into products and services, America can still outproduce, outinvent, and outcompete anyone on the face of this planet.

Last year Congress acted to improve America's international competitiveness. In the Economic Recovery Act we passed a number of tax provisions designed to improve capital formation, encourage research and development, and facilitate the operation of American firms in overseas markets. Yet, today we find growth in our most dynamic and most competitive industries stifled—stifled by barriers to market access overseas, stifled by what are called rolling infant industrial policies that target first one and then another foreign industry with Government subsidies and market protection.

Steel and auto workers in my home State of Ohio have borne the brunt of such targeted industrial policies. Today employees in my State's high technology industries—the high technology industries—see the same grim pattern beginning to unfold for them. And now is the time to assure fair treatment for competitive American exports.

The time to act is now, before we are forced to react to a flood of foreign imports. So let us act now to insure that competitive American firms are guaranteed the same access to foreign markets that we provide to our trading partners.

The various bills before this committee contain the essential elements necessary to accomplish this. Active enforcement of our trade agreements, negotiation of mutual reductions of tariffs on specific products, effective monitoring of and authority to offset trade distorting practices, and the expansion of policy to include trade in services and investment are all important steps we must take in response to the international challenge.

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To these I would add one additional element; that is to provide our special trade representative [STR] with a mandate to negotiate liberalized trade in high technology areas, in particular, in accordance with the principles embodied in the policy measures I have just mentioned.

I believe such a mandate is important because of the unique nature of high technology trade. The pace of change in high technology industries is exceptionally fast, and today we stand poised at the edge of dramatic breakthroughs that will revolutionize the way we live. Moreover, innovation in these areas comes largely from small and developing firms.

The rapid rate of change, the potential for dramatic breakthroughs, and the small size of most of these firms preclude our consideration of lengthy antidumping or countervailing investigations as a remedy to unfair trade practices.

Our high technology industries simply cannot afford the time or money required by these procedures. And for these reasons I feel it is important to grant specific authority to move forward vigorously in negotiations on high technology trade—to liberalize access to world markets and reduce tariffs whenever possible.

Although none of us can predict the future, we do know that the cutting edge of the world's economy lies in knowledge-based industries. By removing the obstacles to free trade in these areas, we can realize the growing potential of American creativity and reaffirm the confidence of our people in the good faith of our trading partners and the authority of GATT. But we must act now before that confidence is lost.

Mr. Chairman, I believe that today's hearings are a good first step. They tell our trading partners that our markets will not be fair game until the game is made fair. Just as our Federal Government has a commitment to insure that competition among firms in our domestic market is fair, so does it have a responsibility to insure that American firms are not unfairly disadvantaged in world markets as a result of their commitment to free enterprise.

Just as we can no longer afford to be the world's policeman, neither can we afford to be its only willing victim for unfair trade practices.

The successful modernization of our basic industries, the employment of skilled American workers, and the full expression of our high technology and service sectors' creativity can no longer await the cessation of unfair foreign trade practices and the realization of fair and equal trade and investment opportunities.

In short, we can no longer afford to pursue the ideal of free trade unless our trading partners are willing to reciprocate.

The bills before this committee provide procedures to insure that the spirit of trade liberalization is matched by actual results in world markets. They clearly outline to our trading partners that countries which expect to embrace trade and investment opportunities in the United States must be prepared to meet us with equally open arms.

Mr. Chairman, as a member of the Foreign Relations Committee, I met yesterday afternoon with several other members with the Japanese Foreign Minister. He made the statement during that meeting that he felt perhaps we were putting disproportionate em-

phasis on some of these matters. And I took exception to that. I stated that from our view at this end of Pennsylvania Avenue, we felt that we did not, by and large, want restrictive trade legislation, but unless there was a forthcoming cooperation that we do not see at this time, we were probably going to be forced into some sort of restrictive legislation, and we wish to avoid that.

I pointed out that Japan was a leading economic power, that they were the beneficiary of the open trading system that we have sponsored and that we are the prime example of around the world. I went into a number of different areas on where they could be more open in letting American products in, particularly pulp, paper, computers, petrochemicals, telecommunications equipment, farm food products, cigarettes, that altogether could possibly make somewhere between a $5 and $15 billion difference in our trade with Japan—right now, just in those areas.

We went into the idea that they need not just a little piecemeal, step-by-step approach to this, but a comprehensive package that we hoped would come out before the Versailles Economic Summit this spring.

And I used some examples of areas yesterday where some of these things I felt were very much unfair. If a company wants to operate in Japan, for instance, and they try and go in and float a bond issue, the Ministry of Finance in Japan will perhaps permit only one U.S. company per quarter to come in and float a bond issue, where they are free to do so in our country here.

Korean steel—when it got to about 2 percent of the Japanese market, as reported in a Japanese economic journal—suddenly became a target for all sorts of restrictions and all sorts of difficulties in sending steel into Japan.

If we wish to make an investment in Japan, we have to make a 30-day notification to the Ministry of Finance, if the purchase is to be more than 10 percent.

All of these are just examples of what happens. The point I closed with yesterday afternoon in talking to the Japanese Foreign Minister was the fact that, if we do not expect to be sitting around having similar discussions 15 years from now, as we all move into this high technology area that Japan and the United States are the chief advocates of and developers of, then we had better be assuring right now that in these high tech areas we keep quotas, tariffs, all restrictions, all barriers down, so we don't have to face some of these same problems 10 or 15 years down the road.

So we pointed out some of those things yesterday afternoon. I certainly hope that the Japanese, in particular, can come up with a comprehensive program before the Versailles summit this summer.

Mr. Chairman, I would compliment you again on holding these hearings, and we wish to work together with you as closely as we possibly can in seeing that some of this legislation gets through.

Thank you very much.

Senator DANFORTH. Senator Glenn, thank you very much for your testimony and for your participation in this effort.

I would say in response that I agree with your comment that the characterization of the reciprocity legislation that is before us as being protectionist or being a return to Smoot-Hawley is just not accurate, not a reasonable interpretation.

[Prepared statement of Senator John Glenn follows:]

PREPARED STATEMENT OF SENATOR JOHN GLENN

Mr. Chairman, I want to thank you for this opportunity to express my views on foreign trade before your subcommittee. And I also want to take this opportunity to express my appreciation for your leadership on trade issues. We worked together on the auto import resolution last session and today we are joined in support of the reciprocal Trade and Investment Act. Both these initiatives address serious problems involving difficult international political questions. Your leadership in these areas has been forceful. But even more important, it has been fair—and for that I commend you.

Someone once defined a free trader as a politican who's not up for re-election. While there may be some truth to that—on both sides of the oceans, I might add—I don't think "protectionism" is a fair characterization of the trade measures we are currently considering.

On the contrary, our concern is to bring about a global trading system that is increasingly free, as well as increasingly fair. For too long now, other signatories to international trade agreements have honored the principle of comparative advantage in theory, but ignored it in practice. But under the agreements, America has a right to expect adherence to the principle of comparative advantage—and I say that asserting our right is not protectionist. For too long now, our posture in foreign trade has been reactive rather than active. We have reacted to a flood of foreign imports instead of acting to assure fair treatment for American exports. And again I say that asking other countries to play by the same rules we observe is not protectionist.

Our competitive position in the world economy has deteriorated in recent years because we have failed to develop a foreign trade policy responsive to the changing context of international trade. Last year our merchandise balance of trade deficit was nearly $40 billion and this year's figures are even worse. Now these deficits are not simply the result of our trading partners' practices. In many areas we are not now as competitive as we once were, nor as competitive as we should be. But let me say this—given our system of private enterprise, a proper amount of research and development and enough capital to translate American creativity into products and services—America can still outproduce, outinvent and outcompete anyone on the face of this planet.

Last year Congress acted to improve America's international competitiveness. In the Economic Recovery Act, we passed a number of tax provisions designed to improve capital formation, encourage research and development and facilitate the operation of American firms in overseas markets. Yet today we find growth in our most dynamic and most competitive industries stifled—stifled by barriers to market access overseas, stifled by "rolling infant" industrial policies that target first one and then another foreign industry with government subsidies and market protection.

Steel and auto workers in my home state of Ohio have borne the brunt of such targeted industrial policies. Today, employees in my state's high technology industries see the same grim pattern unfolding for them. Now is the time to assure fair treatment for competitive American exports. I repeat, the time to act is now—before we are again forced to react to a flood of foreign imports. So let us act now to insure that competitive American firms are guaranteed the same access to foreign markets that we provide to our trading partners.

The various bills before this committee contain the essential elements necessary to accomplish this. Active enforcement of our trade agreements, negotiations of mutual reductions of tariffs on specific products, effective monitoring of—and authority to offset—trade distorting practices, and expansion of policy to include trade in services and investment are all important steps we must take in response to the international challenge. To these I would add one additional element. And that is to provide our special trade representative with a mandate to negotiate liberalized trade in high technology areas, in accordance with the principles embodied in the policy measures I just mentioned.

I believe such a mandate is important because of the unique nature of high technology trade. The pace of change in high technology industries is exceptionally fast and today we stand poised at the edge of dramatic breakthroughs that will revolutionize the way we live. Moreover, innovation in these areas comes largely from small and developing firms. The rapid rate of change, the potential for dramatic breakthroughs and the small size of most firms preclude our consideration of lengthy antidumping or countervailing investigations as a remedy to unfair trade

practices. Our high technology industries simply cannot afford the time or money required by these procedures. For these reasons I feel it is important to grant specific authority to move forward vigorously in negotiations on high technology trade—to liberalize access to world markets and reduce tariffs whenever possible.

Though none of us can predict the future, we do know that the cutting edge of the world's economy lies in knowledge-based industries. By removing the obstacles to free trade in these areas, we can realize the growing potential of American creativity and reaffirm the confidence of our people in the good faith of our trading partners and the authority of GATT. But we must act now before that confidence is lost.

I believe that today's hearings are a good first step. They tell our trading partners that our markets will not be "fair game" until the game is made fair. Just as our Federal Government has a commitment to insure that competition among firms in our domestic market is fair, so does it have a responsibility to insure that American firms are not unfairly disadvantaged in world markets as a result of their commitment to free enterprise. Just as we can no longer afford to be the world's policemen, neither can we afford to be its only willing victim for unfair trade practices. The successful modernization of our basic industries, the employment skilled American workers and the full expression of our high technology and service sectors' creativity can no longer await the cessation of unfair foreign trade practices and the realization of fair and equal trade and investment opportunities. In short, we can no longer afford to pursue the ideal of free trade unless our trading partners are willing to reciprocate.

The bills before this committee provide procedures to insure that the spirit of trade liberalization is matched by actual results in world markets. It clearly outlines to our trading partners that countries which expect to embrace trade and investment opportunities in the United States must be prepared to meet us with equally open arms.

Thank you very much.

Senator MOYNIHAN. Mr. Chairman, I was talking about the next round, the one that will follow this one unless in fact something is done.

Senator DANFORTH. All right.

I do feel that among my constituents there is very little outcry for flatout protectionism. I think most people feel that protectionism would be a step backward and would not serve the interests of our country. But they also feel that if we are going to be engaged in international trade, it has to be a two-way street, and that it is not sufficient for the United States to be a market for other countries. We also have to insist that other countries are a market for what we make.

I think there is a belief in this country still that we can compete with the best of them, provided we have equal access to other markets.

So I think that your statement is correct. And I also think that in S. 2094 and other bills before us, the idea of systematically identifying foreign barriers to American exports and an effort to strengthen section 301 of the Trade Act of 1974 to provide us with greater leverage to open foreign markets is the opposite of protectionism.

Senator Mitchell.

Senator MITCHELL. Well, I just want to comment.

Thank you, Senator Glenn, for your statement. I would just comment, Mr. Chairman, that I agree wholeheartedly with you—it is a single coin with two sides. We obviously want to promote U.S. exports, and we are deeply concerned about any restrictions which impede our exporting activities. That's the purpose of this legislation.

At the same time, I think we must be concerned. I understand the points that Senator Moynihan is making, but I think we also

must be concerned with protecting the rights of those domestic industries which are susceptible to devastation as the result of unfair subsidies or other practices in foreign countries that have a severe, and most importantly, as I pointed out earlier, an inequitably distributed impact in this country. The impact is by geography, it is by sector, but it is not equitably distributed in this country, and I think it is important that we devise policies to deal with both sides of that coin.

I commend Senator Danforth. I am a cosponsor of his bill. I think it is an excellent effort. The purpose of this hearing obviously is to explore any improvements that can be made in it, and I'm sure Senator Danforth himself would be the first to suggest that it is not the final word. But it does represent a very significant first step in trying to achieve a reasonable balance on both sides of that important issue.

I thank you, Senator Glenn, for your comments and contribution to that effort.

Senator GLENN. Thank you.

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, I would join in thanking Senator Glenn for his remarks.

I would hope that not only the administration but our friends in Japan and in the Common Market would hear us when we say that the American people are beginning to sense that the international trading system that has developed under American leadership in the last two generations, since Cordell Hull, has not turned out to be fair. We have depended on fair play from others, and this hasn't happened. And that might be so. In many cases we know it to be so.

It cannot be in the interests of those other nations to turn this country against its commitment since Cordell Hull. At the same time, it cannot be in the interests of the administration to fail to press the existing means of recompense. I mean we have not had a single action by the administration protesting unfair trade practices in any country in the world. We know they are there. And we'd support the administration if it would. And in the absence of executive energy and initiative, it is going to be legislative initiative.

Senator GLENN. Senator, I couldn't agree with you more. One thing I have advocated, and we advocated in the steel caucus some time ago, of course, was the fact that we thought the Government in the last administration and in this one should be doing this kind of work through our consuls, through our embassies, through our economic attachés, in gathering the information rather than just letting firms go out and be their own mini-State department in gathering this kind of information.

I think that's going to become even more critical as we move into these high-tech areas where we have many smaller companies, specialized products—they can't afford to go out and go overseas and develop an antidumping case, or a whatever.

I would hope that our Government would move to represent those companies and see that the Government takes action in some way rather than just letting each firm be its own little State Department.

Senator MITCHELL. Would Senator Moynihan yield?

I would just like to say that, if he would accept a modest correction, the administration has initiated the process to put import restrictions on tobacco. That is the only action.

Senator MOYNIHAN. Tobacco is different. Don't you know what goes on around here? [Laughter.]

Come on, here. It comes from a different part of the country. [Laughter.]

Senator GLENN. We pointed out yesterday, though, on tobacco, that the Japanese have permitted so far 1.35 percent American penetration into their market. Now, that's one area that we are probably better at producing than any other country in the world. And, so far, we are permitted 1.35 percent into their market.

Senator BAUCUS. Senator, I want to thank you for your statement, too.

It might be appropriate here, though, to draw out another point. The estimates I have seen are that the trade deficit with Japan is about $18 billion.

I see other studies, though, that seem to conclude that if Japan were to drop all nontariff trade barriers that the trade deficit would reduce by only $1 billion—not by very much at all; $1 billion or maybe $2 billion.

Now, I first want to ask you whether you are aware of those studies, or whether you are aware of any studies that have a contrary conclusion?

Senator GLENN. We talked yesterday, and perhaps Ambassador Brock can address this more fully. But some of the information that we had was that a much greater penetration of Japanese markets might be the potential.

Depending on whose estimate you want to use, you could get a potential penetration of between $5 and $15 billion, is what was estimated, if we just opened up in those particular areas of leather, pulp, paper, cigarettes, medical instruments, soda ash, telecommunications, computers—just those areas would probably be on the order of $10 billion, or something like that, by some estimates. No one knows for sure. It would all depend on how aggressively American firms went after that business, of course; whether we are willing to adapt to the peculiarities of the Japanese market; really go into a marketing process, which many of our companies have not done in trying to sell in some of these foreign areas.

So I think it is practically impossible to make an accurate estimate of what the market would be. Some of these are consumer items. Whether we can go in and advertise and outcompete the Japanese is problematical.

Senator BAUCUS. I would like to raise two points in that regard. First, even if Japan were to open up this market completely, I doubt that that is going to solve all of our American economic woes. I think it is high interest rates that are largely contributing to American economic difficulties, and high unemployment rates, not only in the auto industry but in all other sectors of our economy. And if Japanese trade barriers were completely eliminated, the nontariff trade barriers, I doubt that it would have all the effect that some like to think it would have.

The second point, however, is that no way, in my judgment, should that mean that we should diminish our efforts to encourage Japan to drop those barriers. That in no way, in my judgment, relieves the responsibility of Japan, and the Common Market, too, to drop those tariff and nontariff trade barriers.

Then the focus can come back on us so that we in America begin to do what we have to do to get our economy back in order. In fact, I think it takes both. Not only should Japan drop its barriers as well as the Common Market countries, but we have to work here at home; because mostly our problems are here at home and not overseas problems. But we have to encourage those countries to continue to work to drop their barriers.

Senator DANFORTH. Senator Roth.

Senator ROTH. No.

Senator DANFORTH. Senator Bradley.

Senator BRADLEY. Mr. Chairman, I have no questions. I know Senator Glenn is anxious to get on to his next meeting.

Senator DANFORTH. Senator Dole.

Senator DOLE. I thought this was a testimonial when I walked in. I didn't know whether I was participating or not. [Laughter.]

But, I am pleased to have you here.

Japan is a very important ally of ours. I notice that New York City just bought some railcars from Japan, and one of the reasons was because of a big subsidy plus a very generous leasing provision that may be modified or repealed. There is a lot of activity by Japan in this country.

We benefit in the Midwest, because Japan buys 6 to 7 billion dollars' worth of farm products annually. I think we have to be very careful that we don't upset a balance here. But I do believe that your statement and the hearing and the leadership of Senator Danforth and others will help us get to that position.

Senator GLENN. With regard to that, I think there are still some 22 agricultural and marine products that are restricted or seriously curtailed from entrance into Japan that may even violate some of the GATT agreements.

So, while they have taken some of those restrictions off, there are a great number of others that they could take off, also, that would facilitate more agricultural trade, too.

Senator DOLE. Thank you.

Senator DANFORTH. Senator Glenn, thank you very much.

Senator GLENN. Thank you.

Senator DANFORTH. Next we have Ambassador Brock and Secretary Baldrige representing the administration.

STATEMENT OF HON. WILLIAM E. BROCK III, AMBASSADOR, U.S. TRADE REPRESENTATIVE

Ambassador BROCK. Mr. Chairman, I have a statement which, if I may, I will present in full, and then Secretary Baldrige and I will be delighted to respond to whatever questions you have.

The United States has long been the world leader in promoting more liberalized trading practices and policies. As a nation, we have initiated every major multilateral negotiation, including the

Kennedy round in the 1960's and the Tokyo round concluded in 1979. We will not change course now.

We intend to continue more vigorously than ever before our efforts for a freer world trading system.

Last summer, I appeared before this subcommittee to present the Reagan administration's statement on U.S. trade policy. The cornerstone of that policy was expressed as follows:

> Free trade, based on mutually acceptable trading relations, is essential to the pursuit of our goal of a strong U.S. economy. We will strongly resist protectionist pressures. Open trade on the basis of mutually agreed upon rules is in our own best economic interests . . .
>
> Internationally, we will pursue policies aimed at the achievement of open trade and the reduction of trade distortions, while adhering to the principle of reciprocity in our trading relations.
>
> Toward this end * * * we will strictly enforce United States laws and international agreements * * * we will insist that our trading partners live up to the spirit and the letter of such agreements and that they recognize that trade is a two-way street.

I reiterate these statements of policy today. The goal and intent of the legislative proposals—to make sure trade is a two-way street—before this subcommittee are consistent with, and are a natural extension of, this trade policy.

Increased equity and reciprocal market access and opportunities for U.S. exporters and investors has been, and will continue to be, a goal of this administration.

Insofar as Congress and the administration are both examining ways to achieve this goal within the context of our overall policy and our international obligations, we are in agreement. However, a clarification of our purpose is essential, for a distorted use of reciprocity could undermine an already vulnerable multilateral trading system, trigger retaliation abroad, further depriving the United States of export markets, and erode, if not eliminate, our role as the world leader in liberalizing international trade.

Our commitment to free trade requires a bold, positive action, not just passive lip service to an ideology. The dynamics of trade are such that if we do not move forward, then we slide back.

We make no contributions to the goal of free trade by ignoring attacks upon it by others or by not pursuing increased market access for our goods, services, and investment.

Clearly, no nation can long sustain public support of any policy unless its people sense that there is equity and tangible benefits for them in the application of that policy.

Our adherence to a free trade policy requires us to strictly enforce existing trade agreements, to strengthen our domestic trade laws to make them more useful and responsive to the needs of those they protect, and seek expanded coverage of trade issues under the mutually accepted international framework of the General Agreement on Tariffs and Trade.

In following this course of action, we must not lose sight of the fact that the United States and its trading partners must work within the framework of our international obligations.

The whole reason for the existence of the GATT lay in the desire to eliminate the trade destructive retaliatory practices of the two decades preceding World War II. It has worked, if the expansion of world trade over the past 35 years is any indication.

Frustration with GATT's seeming inability to deal with new forms of barriers and trade distortions is no justification for U.S. abandonment of our commitment to free trade, and certainly no justification for our resort to similar negative unilateral action.

On the contrary, it is clearly our best reason for renewed efforts to strengthen the international code of conduct and make it work. We must view the many pieces of trade legislation that have been introduced in this Congress in this perspective.

Four principles will guide our approach to any suggested legislation:

First, it must be absolutely consistent with current obligations under the GATT and other international agreements.

Second, it must stress multilateral rather than bilateral or sectoral solutions.

Third, it must focus on strengthening existing international institutions and expanding international agreements to include those areas, such as services, investment, and high technology not presently covered.

Fourth, it must strengthen the negotiating mandate and flexibility of the President in his efforts to achieve a more liberalized world trading system and a reduction of barriers to U.S. workers and enterprises.

As U.S. Trade Representative, I have attempted to virgorously pursue such a course of action. During the past year, my office has initiated 10 section 301 investigations involving 7 countries for unfair trade practices. We are now pursuing international dispute settlements in these cases.

Five such investigations were recently initiated concerning the use of subsidies by European nations on production of specialty steel. And we have assisted many smaller industries by providing technical assistance on the different processes available for seeking relief from unfair trade practices or competition.

It is my intention to continue these efforts during the coming year. There is more work to be done, and I commend the members of this subcommittee for their contributions.

You have identified areas in need of attention: trade in services, equitable treatment for U.S. investors, and increasing competition in the high technology field.

While the United States can move domestically on these issues through legislation, an international forum is necessary to have our interests reflected in the world trading systems.

To this end, the United States is actively participating in preparations for a Ministerial level meeting of the GATT next November.

We hope to use this meeting not only to review the operation and implementation of the MTN agreements, but also to chart a course for our international trade activities for the balance of the 1980's.

Among our key objectives are the initi[illegible]ork programs on services, investment and high technology.

We also hope to use the Ministerial to renew and invigorate international efforts to bring trade in agricultural goods more closely into the disciplines of industrial trade.

This administration believes that there are useful elements contained in many of the legislative proposals under consideration here today, and we would welcome the opportunity to work with the chairman and subcommittee members in both the Senate and the House.

While we cannot comment on each provision of every bill today, I do wish to outline those elements the administration would find beneficial.

In contrast to trade in goods, we are currently operating without any meaningful international rules in services trade, an area where we are experiencing expanded trade opportunities and growing barriers to them.

It is therefore timely to clarify the President's authority to negotiate international agreements for services.

Such a clarification should stress the need for close cooperation with States that have key responsibilities in some of our service sectors.

Clarification of the inclusion of services under the authority granted by section 301 of the Trade Act would demonstrate to our trading partners the U.S. resolve in seeking equitable treatment in this area.

In addition, Congress specific mandate to negotiate a multilateral framework agreement for trade in services would provide the administration with the tools to make such a goal a reality.

As in the case of exports of services, there are few international agreements to protect the interests of U.S. investors abroad. A clarification of the President's section 301 investigative authority with respect to unfair practices in the area of investment is necessary.

While it has always been and will continue to be U.S. policy to welcome market-oriented direct foreign investment into the United States, it is also U.S. policy to obtain equity for U.S. investors abroad to the greatest degree possible.

However, since the implementation or pursuit of these two policies may occasionally create operational conflicts the investment issue deserves careful consideration by Congress and the administration.

Further, like trade in services, additional negotiating authority in this area is an important and often necessary step toward addressing many international problems in this area.

Several legislative proposals have been made to emphasize reciprocal market access or similar competitive opportunities in the consideration of a section 301 case.

Reciprocity as a principle embodies in the GATT and in our trade laws, and increased market access as a goal of any free trade policy, is welcomed by the administration.

However, we must not enact laws which will force U.S. trade policy to require bilateral, sectoral, or product-by-product reciprocity.

In our view, the primary and preferable method for obtaining substantially equivalent market access should always be to seek liberalization of foreign markets rather than to raise equivalently restrictive barriers of our own.

Our goal should be to move our trading partners forward through negotiations to a level of market openness more similar to our own.

The concept of what we would term "global reciprocity"—that is, the belief that the aggregate benefits derived by each party to the GATT are substantially equivalent to concessions given by any other party—has been the principle underlying our world system for trade in goods since the inception of the General Agreement in 1948.

Though the GATT and most-favored-nation system has fallen short in some ways, the United States and other countries have greatly benefited from this system. Therefore, we intend to adhere to our mutually accepted obligations under the GATT, and that must discipline our understanding of a reciprocity principle.

Because our present trade laws and trading system already provide the tools to seek reciprocal market access in our trade in goods, the administration believes that the pursuit of more open foreign markets becomes even more important in its application to reaching nontariff barriers in areas not adequately covered by the GATT, other international agreements, or U.S. law, such as services and investment.

Some proposals in the tariff area would provide the President with more flexible authority to modify our international tariff concessions and U.S. tariffs. Such flexibility could provide authority that would assist our efforts to obtain increased market access for U.S. goods.

One such authority that expired in January of this year is section 124 tariff reduction negotiating authority of the President.

As the chairman is aware, the administration is seeking an extension of this law and legislation is currently pending before this subcommittee and the House Ways and Means Committee.

Focus should be directed toward the need for multilateral consideration of high technology trade, a priority item in our work on the GATT Ministerial agenda, and one which many countries legitimately recognize as a critical area for economic development.

I ask that Congress examine the desirability of Presidential authority to negotiate the reduction of barriers to trade in high technology goods, including the reduction of tariffs.

Such a provision would give the President specific authority to reduce U.S. tariffs on high technology products in exchange for equivalent concessions.

Other legislative proposals also deserve more careful examination. There are areas which have not been fully examined.

I refer to the erosion or rejection by some of industrial and intellectual property rights, especially in more technologically advanced products, or the impact of foreign industrial planning and country targeting on an open market such as ours. A thorough examination of these issues would be of benefit.

While there is much good in the ideas generated by this Congress and this committee, there are elements of these trade bills which we believe would be problematic, if not impossible to support.

A number of the bills pending before Congress would require extensive and continued analyses of foreign barriers and require submission of a report on these analyses to Congress, together with an

indication of what action the administration might take to eliminate the barriers.

The idea of developing a list of foreign barriers is a good one and one that we have already followed to some degree.

For example, we have developed a list of foreign practices in the services sector as a first step in preparation for an eventual multilateral negotiation on services.

However, I am opposed to linking such analyses to section 301 by requiring that foreign practices be labeled in accordance with the standards for action under section 301.

For example, requiring the administration to state that a particular foreign practice is inconsistent with the GATT or codes before the international dispute settlement body has had the opportunity to even review the issue could undermine the integrity of the international dispute settlement system.

Similarly, to label any foreign practice as meeting one of the standards for action under section 301 would prejudice a 301 investigation on the subject.

As noted earlier, this administration welcomes global reciprocity as an objective or principle of overall U.S. trade policy.

However, to establish reciprocity on a bilateral, sectoral or product-by-product basis would undercut any realistic negotiating position. A new independent standard for unilateral action under section 301 authority could mean that instead of judging the fairness of foreign market access according to internationally agreed standards, we would be required to judge it by the access accorded to foreigners in the U.S. market. That kind of result would undermine the multilateral approach to international trade and would be opposed by the administration.

The issue of reciprocity is complex, and the U.S. reciprocity policy, therefore, needs to be formulated and implemented in a comprehensive manner.

It is a basic fact that economies differ. Countries don't produce or necessarily have the capability to produce everything.

For the past 35 years we have had to take this fact into consideration in negotiating trade agreements under the GATT.

We knew that we couldn't negotiate access to the Japanese market for U.S. wheat producers by offering access to our market for wheat to the Japanese. They are in no position to export wheat to us and would be understandably reluctant to accept such a deal.

Likewise, we could not expect to negotiate access to foreign markets for our computer exports by offering access to our computer market to countries which do not produce and which do not expect to produce computers.

Therefore, a narrow sectoral approach to trade negotiations simply could not and would not be productive.

Instead, we have negotiated agreements with our trading partners which cover a broad range of sectors, with an overall balance of concessions which we would call reciprocity.

Nor can I support the use of the term reciprocity if it means seeking bilateral balance in the narrow sense.

Even given the problems we face with Japan in seeking greater market access, it would be dangerous to seek a bilateral balance of trade with them as our standard of fairness.

If we were to do so, other countries with which we maintain trade surpluses, such as the EC, would certainly pursue the same policy with regard to the United States.

In view of the principles and problems which I have set forth today, one can say that there are elements in each reciprocity bill which we could support, as well as elements which would pose difficulties for the administration and for the world economic order.

Some of the bills under consideration at this hearing today in one way or another attempt to provide for the improvement and strengthening of our negotiating authority and leverage in areas of critical importance to the administration such as services, investment, and trade in high technology goods.

Together, some of these provisions could, in combination, prove useful in our efforts to address these critical issues with our trading partners at the GATT Ministerial as well as in overall efforts to preserve by strengthening the international trade and investment system throughout the remainder of this century.

As we explore the issues raised by the legislation now before the Senate Trade Subcommittee, the United States will again be assuming an important leadership role in promoting freer and fair trade. As the initiator of every major negotiation, this is not an unusual or unexpected responsibility.

This Congress and this administration fully comprehend that agreements on services and investment must be negotiated, that the GATT must be tested and strengthened, that agreements must be enforced, and that equity of market access sought.

Throughout this exercise, let us remember that the decisions we make will set the tone in world trade centers. It is with this sense of responsibility that we will work to open foreign markets, not erect new barriers. Any other action would be contrary to the interest of our Nation and the world trading system.

Thank you.

[Prepared statement of Ambassador Brock follows:]

PREPARED STATEMENT OF AMBASSADOR WILLIAM E. BROCK III, UNITED STATES TRADE REPRESENTATIVE

The United States has long been the world leader in promoting more liberalized trading practices and policies. As a nation, we have initiated every major multilateral negotiation, including the Kennedy Round in the 1960's and the Tokyo Round concluded in 1979. We will not change course now.

We intend to continue more vigorously than ever before our efforts for a freer world trading system.

Last summer, I appeared before this Subcommittee to present the Reagan Administration's statement on U.S. Trade Policy. The cornerstone of that policy was expressed as follows:

> "Free trade, based on mutually acceptable trading relations, is essential to the pursuit of our goal (of a strong U.S. economy)....We will strongly resist protectionist pressures. Open trade on the basis of mutually agreed upon rules is in our own best economic interests...
>
> Internationally, we will pursue policies aimed at the achievement of open trade and the reduction of trade distortions, while adhering to the principle of <u>reciprocity</u> in our trading relations.
>
> (Toward this end)....we will strictly enforce United States laws and international agreements....and ....we will insist that our trading partners live up to the spirit and the letter of (such) agreements and that they recognize that trade is a two-way street."

I reiterate these statements of policy today. The goal and intent of the legislative proposals -- to make sure trade is a two-way street -- before this Subcommittee are consistent with, and are a natural extension of this trade policy. Increased equity and reciprocal market access and opportunities for U.S. exporters and investors has been, and will continue to be, a goal of this Administration. In so far as Congress and the Administration are both examining ways to better achieve this goal within the context of our overall policy and our international obligations, we are in agreement. However, a clarification of our purpose is essential, for a distorted use of reciprocity could undermine an already vulnerable multilateral trading system, trigger retaliation abroad, further depriving the U.S. of export markets, and erode, if not eliminate, our role as the world leader in liberalizing international trade.

Our commitment to free trade requires a bold positive action, not just passive lip-service to an ideology. The dynamics of trade are such that if we do not move forward, then we slide back.

We make no contribution to the goal of free trade by ignoring attacks upon it by others or by not pursuing increased market access for our goods, services, and investment. Clearly, no nation can long sustain public support of any policy unless its people sense that there is equity and tangible benefits for them in the application of that policy.

Our adherence to a free trade policy requires us to strictly enforce existing trade agreements, to strengthen our domestic trade laws to make them more useful and responsive to the needs of those they protect, and seek expanded coverage of trade issues under the mutually accepted international framework of the General Agreement on Tariffs and Trade.

In following this course of action, we must not lose sight of the fact that the United States and its trading partners must work within the framework of our international obligations. The whole reason for the existence of the GATT lay in the desire to eliminate the trade destructive retaliatory practices of the two decades preceding World War II. It has worked, if the expansion of world trade over the past thirty-five years is any indication.

Frustration with GATT's seeming inability to deal with new forms of barriers and trade distortions is no justification for U.S. abandonment of our commitment to free trade, and certainly no justification for our resort to similar negative unilateral actions. On the contrary, it is clearly our best reason for renewed efforts to strengthen the international code of conduct and make it work. We must view the many pieces of trade legislation that have been introduced in this Congress in this perspective.

Four principles will guide our approach to any suggested legislation:

First, it must be absolutely consistent with current obligations under the GATT and other international agreements.

Second, it must stress multilateral rather than bilateral or sectoral solutions.

Third, it must focus on strengthening existing international institutions and expanding international agreements to include those areas, such as services, investment and high technology not presently covered.

Fourth, it must strengthen the negotiating mandate and flexibility of the President in his efforts to achieve a more liberalized world trading system and a reduction of barriers to U.S. workers and enterprises.

As U.S. Trade Representative, I have attempted to vigorously pursue such a course of action. During the past year my office has initiated 10 Section 301 investigations involving 7 countries for unfair trade practices. We are now pursuing international dispute settlements in these cases. Five such investigations were recently initiated concerning the use of subsidies by European nations on production of specialty steel. And we have assisted many

smaller industries by providing technical assistance on the different processes available for seeking relief from unfair trade practices or competition.

It is my intention to continue these efforts during the coming year. There is more work to be done, and I commend the members of this Subcommittee for their contributions. You have identified areas in need of attention: trade in services, equitable treatment for U.S. investors, and increasing competition in the high technology field.

While the United States can move domestically on these issues through legislation, an international forum is necessary to have our interests reflected in the world trading systems. To this end, the United States is actively participating in preparations for a Ministerial level meeting of the GATT next November. We hope to use this meeting not only to review the operation and implementation of the MTN agreements, but also to chart a course for our international trade activities for the balance of the 1980s. Among our key objectives are the initiation of work programs on services, investment and high technology. We also hope to use the Ministerial to renew and invigorate international efforts to bring trade in agricultural goods more closely into the disciplines of industrial trade.

This Administration believes that there are useful elements contained in many of the legislative proposals under consideration here today and we would welcome the opportunity to work with the Chairmen and Subcommittee Members in both the Senate and the House. While we cannot comment on each provision of every bill today, I do wish to outline those elements the Administration would find beneficial.

Tools to Increase Market Access in Services:

In contrast to trade in goods, we are currently operating without any meaningful international rules in services trade, an area where we are experiencing expanded trade opportunities and growing barriers to them. It is therefore timely to clarify the President's authority to negotiate international agreements for services. Such a clarification should stress the need for close cooperation with states that have key responsibilities in some of our service sectors.

Clarification of the inclusion of services under the authority granted by Section 301 of the Trade Act would demonstrate to our trading partners the United States' resolve in seeking equitable treatment in this area. In addition, Congress' specific mandate to negotiate a multilateral framework agreement for trade in services would provide the Administration with the tools to make such a goal a reality.

Tools to Insure Equity in Direct Foreign Investment Abroad:

As in the case of exports of services, there are few international agreements to protect the interests of U.S. investors abroad. A clarification of the President's Section 301 investigative authority with respect to unfair practices in the area of investment is necessary. While it has always been and will continue to be U.S. policy to welcome market-oriented direct foreign investment into the U.S., it is also U.S. policy to obtain equity for U.S. investors abroad to the greatest degree possible. However, since the implementation or pursuit of these two policies may occasionally create operational conflicts, the investment issue deserves careful consideration by Congress and the Administration.

Further, like trade in services, additional negotiating authority in this area is an important and often necessary step toward addressing many international problems in this area.

Emphasis on Reciprocal Market Access in Section 301:

Several legislative proposals have been made to emphasize reciprocal market access or similar competitive opportunities in the consideration of a Section 301 case. Reciprocity as a principle embodied in the GATT and in our trade laws, and increased market access as a goal of any free trade policy,

is welcomed by the Administration. However, we must not enact laws which will force U.S. trade policy to require bilateral, sectoral, or product-by-product reciprocity.

In our view, the primary and preferable method for obtaining substantially equivalent market access should always be to seek liberalization of foreign markets rather than to raise equivalently restrictive barriers of our own. Our goal should be to move our trading partners forward through negotiations to a level of market openness more similar to our own.

The concept of what we would term "global reciprocity" -- that is, the belief that the aggregate benefits derived by each party to the GATT are substantially equivalent to concessions given by any other party -- has been the principle underlying our world system for trade in goods since the inception of the General Agreement in 1948. Though the GATT and most-favored-nation (MFN) system has fallen short in some ways, the United States and other countries have greatly benefited from this system. Therefore, we intend to adhere to our mutually accepted obligations under the GATT, and that must discipline our understanding of a reciprocity principle.

Because our present trade laws and trading system already provide the tools to seek reciprocal market access in our trade in goods, the Administration believes that the pursuit of more open foreign markets becomes even more important in its application to reaching non-tariff barriers in areas not adequately covered by the GATT, other international agreements, or U.S. law, like services and investment.

Modification or Suspension of Existing U.S. Tariff and International Tariff Concessions:

Some proposals in the tariff area would provide the President with more flexible authority to modify our international tariff concessions and U.S. tariffs. Such flexibility could provide authority that would assist our efforts to obtain increased market access for U.S. goods.

One such authority that expired in January of this year is Section 124 tariff reduction negotiating authority of the President. As the Chairman is aware, the Administration is seeking an extension of this law and legislation is currently pending before this Subcommittee and the House Ways and Means Committee.

High Technology

Focus should be directed toward the need for multilateral consideration of high technology trade, a priority item in our work on the GATT Ministerial agenda, and one which many

countries legitimately recognize as a critical area for economic development. I ask that Congress examine the desirability of Presidential authority to negotiate the reduction of barriers to trade in high technology goods, including the reduction of tariffs. Such a provision would give the President specific authority to reduce U.S. tariffs on high technology products in exchange for equivalent concessions.

Other legislative proposals also deserve more careful examination. There are areas which have not been fully examined. I refer to the erosion or rejection by some nations of industrial and intellectual property rights, especially in more technologically advanced products, or the impact of foreign industrial planning and country targeting on an open market such as ours. A thorough examination of these issues will be of benefit.

* * *

While there is much good in the ideas generated by this Congress and this Committee, there are elements of these trade bills which we believe would be problematic, if not impossible to support.

Extensive Reporting Requirements Tied to Section 301 Investigations:

A number of the bills pending before Congress would require extensive and continued analyses of foreign barriers and require submission of a report on these analyses to Congress together with an indication of what action the Administration might take to eliminate the barriers. The idea of developing a list of foreign barriers is a good one and one that we have already followed to some degree. For example, we have developed a list of foreign practices in the services sector as a first step in preparation for an eventual multilateral negotiation on services. However, I am opposed to linking such analyses to Section 301 by requiring that foreign practices be labelled in accordance with the standards for action under Section 301. For example, requiring the Administration to state that a particular foreign practice is inconsistent with the GATT or Codes before the international dispute settlement body has had the opportunity to review the issue could undermine the integrity of the international dispute settlement system. Similarly, to label any foreign practice as meeting one of the standards for action under Section 301 would prejudice a 301 investigation on the subject.

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The Addition of a Reciprocity Standard as a Separate and Distinct Criteria for Initiating a Section 301 Investigation:

As noted earlier, this Administration welcomes global reciprocity as an objective or principle of overall U.S. trade policy. However, to establish reciprocity on a bilateral, sectoral or product-by-product basis would undercut any realistic negotiating position. Thus, under no circumstances should reciprocity-type language constitute a new independent standard for unilateral action under Section 301 authority. Such a practice could mean that instead of judging the fairness of foreign market acce ss according to internationally agreed standards, we would be required to judge it by the access accorded to foreigners in the U.S. market. The ultimate result again would be the undermining of the multilateral approach to international trade.

* * *

The issue of reciprocity is complex and a U.S. reciprocity policy, therefore, needs to be formulated and implemented in a comprehensive manner. It is a basic fact of economic life that national economies differ. Countries don't produce or necessarily have the capability to produce everything. For the past 35 years we have had to take this fact into consideration in negotiating trade agreements under the GATT.

We knew that we couldn't negotiate access to the Japanese market for U.S. wheat producers by offering access to our market for wheat to the Japanese. The Japanese are in no position to export wheat to us and would be understandably reluctant to accept such a deal. Likewise, we couldn't expect to negotiate access to foreign markets for our computer exports by offering access to our computer market to countries which don't produce and which don't expect to produce computers. Therefore, a narrow sectoral approach to trade negotiations could not be productive.

Instead, we have negotiated agreements with our trading partners which cover a broad range of sectors, with an overall balance of concessions which we would call reciprocity. Nor can I support the use of the term reciprocity if it means seeking bilateral balance in the narrow sense. Even given the problems we face with Japan in seeking greater market access, it would be dangerous to seek a bilateral balance of trade with them as our standard of fairness. If we were to do so, other countries with which we maintain trade surpluses (such as the EC) would certainly pursue the same policy with regard to the U.S.

In view of the principles and problems which I have set forth today, one can say that there are elements in each reciprocity bill which we could support as well as elements which would pose difficulties for the Administration and for the world economic order. Some of the bills under consideration

at this hearing today in one way or another attempt to provide for the improvement and strengthening of our negotiating authority and leverage in areas of critical importance to the Administration such as services, investment and trade in high technology goods. Together, some of these provisions could, in combination, prove useful in our efforts to address these critical issues with our trading partners at the GATT Ministerial as well as in overall efforts to preserve by strengthening the international trade and investment system throughout the remainder of this century.

Conclusion:

As we explore the issues raised by the legislation now before the Senate Trade Subcommittee, the United States will again be assuming an important leadership role in promoting freer and fair trade. As the initiator of every major negotiation, this is not an unusual or unexpected responsibility.

This Congress and this Administration fully comprehend that agreements on services and investment must be negotiated, that the GATT must be tested and strengthened, that agreements must be enforced, and that equity of market access sought.

Throughout this exercise, let us remember that the decisions we make will set the tone in world trade centers. It is with this sense of responsibility that we will work to open foreign markets, not erect new barriers. Any other action would be contrary to the interest of our nation and the world trading system.

Senator DANFORTH. Thank you, Ambassador Brock.
Secretary Baldrige.

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Secretary BALDRIGE. Mr. Chairman, the concepts of equal opportunity and market access which are the genesis of current reciprocity legislation are the core principles of free trade philosophy. Without such equality, all nations engaged in international trade lose the benefits from comparative advantage.

Since the establishment of the General Agreement on Tariffs and Trade in 1948, member countries have been committed to a system of multilateral trade arrangements to reduce tariffs and other barriers to trade for the reciprocal benefit of all.

The United States is committed to the GATT system and to extending and strengthening its disciplines.

The United States has been well served by the GATT system and that system has shown itself to be an adaptable force for trade liberalization through its various negotiating rounds.

We hope that the upcoming GATT Ministerial in November will focus on the challenges of the future, particularly in the services and investment area. We will certainly encourage all member nations to join with us to expand equal opportunities in each others' markets.

Despite the gains in eliminating barriers to free trade over the past 30 years, there remains a need for greater, more equitable access to foreign markets, and a more concerted effort on our part and by our major industrial trading partners to make this happen.

I believe that the United States has led this struggle and is widely recognized for having and maintaining the most open, the freest, and fairest market system in the world.

The international system has expanded greatly from the original 48 GATT members to one in which over 100 nations participated in the last major round of trade negotiations. The existing rules did not envisage this vast expansion of the trading system.

More importantly, we are witnessing increasing deviations, in certain areas, from the fundamental principles underlying free trade.

As successive trade negotiations over the past 30 years have peeled away traditional trade problems, they have revealed deeper and more difficult obstacles to trade. Nations which have agreed to reciprocal tariff reductions have often simply raised more subtle nontariff barriers to protect particular sectors which, in turn, serve to deny reciprocal market access to others.

National preferences for local products, industrial policies which foster or protect particular sectors, export credit subsidies, closed distribution channels, regional investment incentives, and hundreds of other devices have emerged which still prevent the functioning of free markets.

These inequities, coupled with the present global economic downturn, have considerably weakened adherence to free trade princi-

ples and made more sharply unfair the denial of market access on an equal basis.

In addition, existing arrangements within the GATT have been limited in focus to commercial trade in goods. There are currently no adequate multilateral disciplines in key areas such as trade in services and direct investment.

This administration has already stated its position that the international trading community can no longer ignore comprehensive action in these areas.

The administration believes that there is a need to strengthen and clarify the tools available to the President to provide more equitable market access in foreign countries to American business.

First, the administration supports legislation which would provide a statutory mandate for the President to undertake negotiation of international rules in the area of services and investment. There are few agreed upon international disciplines governing services and investment.

An explicit congressional mandate would be useful in gaining more cooperation from our trading partners in our efforts to make progress in these areas.

Roughly 7 out of 10 Americans are employed in the services sector. The services sector accounts for approximately 65 percent of U.S. Gross National Product.

Based on data collected by Commerce's Bureau of Economic Analysis, we recently estimated that international activities in services—exports and income from overseas affiliates—amounted to $128 billion in 1980. Continued benefit from these trade flows is increasingly threatened by barriers erected in foreign markets.

We must make it crystal clear to our trading partners that we are united in our resolve to remove these barriers and that we have the political will to do so.

Second, the administration may be willing to consider new statutory authority permitting trade complaints based on inequitable market access. Such authority, if properly defined—and that may prove difficult—could strengthen the President's hand in dealing with foreign situations where equitable treatment does not exist and where international discipline is inadequate or nonexistent.

The administration welcomes the opportunity at a later time to work with the committee or its staff on the specifics of such a provision.

I would note, however, that any such provision should not stem from a desire to achieve narrow bilateral trade balances in specific sectors, nor do I believe that we should establish a standard that would move us in the direction of sectoral reciprocity.

However, consistent with our international trade obligations, we must make clearer that the pace at which equitable treatment has developed has not been adequate and that present and foreseeable economic realities urge us—all of us in the multilateral system of world trade—to speed up this process.

Because the United States is the largest trading nation, we have gained much from free trade and many nations of the world have benefited greatly from our open market practices. But we also lose

much when trade is artificially distorted and this must be an element to be considered.

Statutory authority clarifying and strengthening the President's ability to deal with inequitable market access can be a means of increasing the gains from free trade.

I would be pleased to respond to any questions from your committee, Mr. Chairman.

QUESTION FOR SECRETARY BALDRIGE

Mr. Secretary: In last Friday's *Wall Street Journal,* an article appeared entitled "Industry Patents and the Third World." The article reports on a problem that Dow Chemical Company has had with the piracy of technological data involving its leading pharmaceutical product and the lack of patent protection available for that product in Korea. The product is now being produced by a Korean company in great abundance with a virtual ban on imports to protect the domestic producer. The article states that you have pressed the Koreans to review their patent system and that patent and copyright infringement has long been a sore point for foreign companies operating in the Far East. Would you tell us if the international climate for the protection of industrial property rights (*e.g.,* negotiations on the Paris Convention) has improved? And if it has not, would you agree that the subject is inextricably bound to issues regarding foreign market access and warrants careful consideration by this Committee as well as by the Administration?

[The prepared statement of Hon. Malcolm Baldrige follows:]

PREPARED STATEMENT OF THE SECRETARY OF COMMERCE, MALCOLM BALDRIGE

MR. CHAIRMAN, I AM PLEASED TO APPEAR BEFORE THIS SUBCOMMITTEE TODAY TO DISCUSS MY VIEWS ON RECIPROCITY AND RELATED LEGISLATION NOW UNDER CONSIDERATION BY THE CONGRESS.

THE CONCEPTS OF EQUAL OPPORTUNITY AND MARKET ACCESS WHICH ARE THE GENESIS OF CURRENT RECIPROCITY LEGISLATION ARE THE CORE PRINCIPLES OF FREE TRADE PHILOSOPHY. WITHOUT SUCH EQUALITY, ALL NATIONS ENGAGED IN INTERNATIONAL TRADE LOSE THE BENEFITS FROM COMPARATIVE ADVANTAGE.

SINCE THE ESTABLISHMENT OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE IN 1948, MEMBER COUNTRIES HAVE BEEN COMMITTED TO A SYSTEM OF MULTILATERAL TRADE ARRANGEMENTS TO REDUCE TARIFFS AND OTHER BARRIERS TO TRADE FOR THE RECIPROCAL BENEFIT OF ALL. THE UNITED STATES IS COMMITTED TO THE GATT SYSTEM AND TO EXTENDING AND STRENGTHENING ITS DISCIPLINES. THE UNITED STATES HAS BEEN WELL-SERVED BY THE GATT SYSTEM AND THAT SYSTEM HAS SHOWN ITSELF TO BE AN ADAPTABLE FORCE FOR TRADE LIBERALIZATION THROUGH ITS VARIOUS NEGOTIATING ROUNDS. WE HOPE THAT THE UPCOMING GATT MINISTERIAL IN NOVEMBER WILL FOCUS ON THE CHALLENGES OF THE

FUTURE, PARTICULARLY IN THE SERVICES AND INVESTMENT AREA. WE WILL CERTAINLY ENCOURAGE ALL MEMBER NATIONS TO JOIN WITH US TO EXPAND EQUAL OPPORTUNITIES IN EACH OTHERS' MARKETS.

THE NEED FOR EQUITABLE MARKET ACCESS

DESPITE THE GAINS IN ELIMINATING BARRIERS TO FREE TRADE OVER THE PAST THIRTY YEARS, THERE REMAINS A NEED FOR GREATER, MORE EQUITABLE, ACCESS TO FOREIGN MARKETS; AND A MORE CONCERTED EFFORT ON OUR PART AND BY OUR MAJOR INDUSTRIAL TRADING PARTNERS TO MAKE THIS HAPPEN. I BELIEVE THAT THE UNITED STATES HAS LED THIS STRUGGLE AND IS WIDELY RECOGNIZED FOR HAVING AND MAINTAINING THE MOST OPEN, THE FREEST AND FAIREST MARKET SYSTEM IN THE WORLD.

THE INTERNATIONAL SYSTEM HAS EXPANDED GREATLY FROM THE ORIGINAL 48 GATT MEMBERS TO ONE IN WHICH OVER 100 NATIONS PARTICIPATED IN THE LAST MAJOR ROUND OF TRADE NEGOTIATIONS. THE EXISTING RULES DID NOT ENVISAGE THIS VAST EXPANSION OF THE TRADING SYSTEM.

MORE IMPORTANTLY, WE ARE WITNESSING INCREASING DEVIATIONS, IN CERTAIN AREAS, FROM THE FUNDAMENTAL PRINCIPLES UNDERLYING FREE TRADE. AS SUCCESSIVE TRADE NEGOTIATIONS OVER THE PAST 30 YEARS HAVE PEELED AWAY TRADITIONAL TRADE PROBLEMS, THEY HAVE REVEALED DEEPER AND MORE DIFFICULT OBSTACLES TO TRADE. NATIONS WHICH

HAVE AGREED TO RECIPROCAL TARIFF REDUCTIONS HAVE OFTEN SIMPLY RAISED MORE SUBTLE NONTARIFF BARRIERS TO PROTECT PARTICULAR SECTORS WHICH IN TURN SERVE TO DENY RECIPROCAL MARKET ACCESS TO OTHERS. NATIONAL PREFERENCES FOR LOCAL PRODUCTS, INDUSTRIAL POLICIES WHICH FOSTER OR PROTECT PARTICULAR SECTORS, EXPORT CREDIT SUBSIDIES, CLOSED DISTRIBUTION CHANNELS, REGIONAL INVESTMENT INCENTIVES, AND HUNDREDS OF OTHER DEVICES HAVE EMERGED WHICH STILL PREVENT THE FUNCTIONING OF FREE MARKETS. THESE INEQUITIES COUPLED WITH THE PRESENT GLOBAL ECONOMIC DOWNTURN HAVE CONSIDERABLY WEAKENED ADHERENCE TO FREE TRADE PRINCIPLES AND MADE MORE SHARPLY UNFAIR THE DENIAL OF MARKET ACCESS ON AN EQUAL BASIS.

IN ADDITION, EXISTING ARRANGEMENTS WITHIN THE GATT HAVE BEEN LIMITED IN FOCUS TO COMMERCIAL TRADE IN GOODS. THERE ARE CURRENTLY NO ADEQUATE MULTILATERAL DISCIPLINES IN KEY AREAS SUCH AS TRADE IN SERVICES AND DIRECT INVESTMENT. THIS ADMINISTRATION HAS ALREADY STATED ITS POSITION THAT THE INTERNATIONAL TRADING COMMUNITY CAN NO LONGER IGNORE COMPREHENSIVE ACTION IN THESE AREAS.

NEW STATUTORY AUTHORITY

THE ADMINISTRATION BELIEVES THAT THERE IS A NEED TO STRENGTHEN AND CLARIFY THE TOOLS AVAILABLE TO THE PRESIDENT TO PROVIDE MORE EQUITABLE MARKET ACCESS IN FOREIGN COUNTRIES TO AMERICAN BUSINESS.

FIRST, THE ADMINISTRATION SUPPORTS LEGISLATION WHICH WOULD PROVIDE A STATUTORY MANDATE FOR THE PRESIDENT TO UNDERTAKE NEGOTIATION OF INTERNATIONAL RULES IN THE AREA OF SERVICES AND INVESTMENT. THERE ARE FEW AGREED UPON INTERNATIONAL DISCIPLINES GOVERNING SERVICES AND INVESTMENT. AN EXPLICIT CONGRESSIONAL MANDATE WOULD BE USEFUL IN GAINING MORE COOPERATION FROM OUR TRADING PARTNERS IN OUR EFFORTS TO MAKE PROGRESS IN THESE AREAS.

ROUGHLY 7 OUT OF 10 AMERICANS ARE EMPLOYED IN THE SERVICES SECTOR. THE SERVICES SECTOR ACCOUNTS FOR APPROXIMATELY 65 PERCENT OF U.S. GNP. BASED ON DATA COLLECTED BY COMMERCE'S BUREAU OF ECONOMIC ANALYSIS, WE RECENTLY ESTIMATED THAT INTERNATIONAL ACTIVITIES IN SERVICES -- EXPORTS, AND INCOME FROM OVERSEAS AFFILIATES -- AMOUNTED TO $128 BILLION IN 1980. CONTINUED BENEFIT FROM THESE TRADE FLOWS IS INCREASINGLY THREATENED BY BARRIERS ERECTED IN FOREIGN MARKETS. WE MUST MAKE IT CRYSTAL CLEAR TO OUR TRADING PARTNERS THAT WE ARE UNITED IN OUR RESOLVE TO REMOVE THESE BARRIERS AND THAT WE HAVE THE POLITICAL WILL TO DO SO.

SECONDLY, THE ADMINISTRATION MAY BE WILLING TO CONSIDER NEW STATUTORY AUTHORITY PERMITTING TRADE COMPLAINTS BASED ON INEQUITABLE MARKET ACCESS. SUCH AUTHORITY, IF PROPERLY DEFINED, AND THAT MAY PROVE DIFFICULT, COULD STRENGTHEN THE PRESIDENT'S HAND IN DEALING WITH FOREIGN SITUATIONS WHERE

EQUITABLE TREATMENT DOES NOT EXIST AND WHERE INTERNATIONAL DISCIPLINE IS INADEQUATE OR NONEXISTENT. THE ADMINISTRATION WELCOMES THE OPPORTUNITY AT A LATER TIME TO WORK WITH THE COMMITTEE OR ITS STAFF ON THE SPECIFICS OF SUCH A PROVISION. I WOULD NOTE, HOWEVER, THAT ANY SUCH PROVISION SHOULD NOT STEM FROM A DESIRE TO ACHIEVE NARROW BILATERAL TRADE BALANCES IN SPECIFIC SECTORS. NOR DO I BELIEVE THAT WE SHOULD ESTABLISH A STANDARD THAT WOULD MOVE US IN THE DIRECTION OF SECTORAL RECIPROCITY. HOWEVER, CONSISTENT WITH OUR INTERNATIONAL TRADE OBLIGATIONS, WE MUST MAKE CLEARER THAT THE PACE AT WHICH EQUITABLE TREATMENT HAS DEVELOPED HAS NOT BEEN ADEQUATE AND THAT PRESENT AND FORESEEABLE ECONOMIC REALITIES URGE US -- ALL OF US IN THE MULTILATERAL SYSTEM OF WORLD TRADE -- TO SPEED UP THIS PROCESS.

BECAUSE THE UNITED STATES IS THE LARGEST TRADING NATION, WE HAVE GAINED MUCH FROM FREE TRADE AND MANY NATIONS OF THE WORLD HAVE BENEFITTED GREATLY FROM OUR OPEN MARKET PRACTICES. BUT WE ALSO LOSE MUCH WHEN TRADE IS ARTIFICIALLY DISTORTED AND THIS MUST BE AN ELEMENT TO BE CONSIDERED. STATUTORY AUTHORITY CLARIFYING AND STRENGTHENING THE PRESIDENT'S ABILITY TO DEAL WITH INEQUITABLE MARKET ACCESS CAN BE A MEANS OF INCREASING THE GAINS FROM FREE TRADE.

I WOULD BE PLEASED TO RESPOND TO ANY QUESTIONS FROM YOUR COMMITTEE, MR. CHAIRMAN.

Senator DANFORTH. Gentlemen, thank you very much for a most helpful and I think encouraging testimony. Let me ask you this. It is my understanding that the administration would welcome the opportunity to work with both the Finance Committee and the Ways and Means Committee to try to work out legislation which would be mutually acceptable and which could be enacted this year. Is that correct?

Ambassador BROCK. Yes, it is.

Senator DANFORTH. Now with respect to any reporting provision in a so-called reciprocity bill, it's my understanding that the administration now does some listing, compilation, of trade barriers, and that the notion of maintaining such a practice and reporting significant barriers to trade to the Congress is acceptable to the administration—except that the administration would not like to specify which of the alleged barriers either violate the GATT or prejudge section 301 cases under the Trade Act. Is that correct?

Ambassador BROCK. I think, generally, yes, Senator. The problem we have is the possibility of linking such a report to cause of action under 301.

Senator DANFORTH. Yes.

Ambassador BROCK. That prejudges the 301 process. It complicates our international agreements, and might make it even more difficult even in the instance of——

Senator DANFORTH. I understand. And that is perfectly satisfactory to me. As a matter of fact, the notion that I had in the bill that was introduced was that trade barriers should be identified whether GATT illegal or GATT legal, whether violative of statute or not violative of statute. And my own view is that it would be simply a legal conclusion for the administration to try to pair up specific trade barriers with legal conclusions as to what they may or may not violate. I think the point that was made by Secretary Baldridge is quite correct—that some trade barriers are quite subtle. And I don't think it would be necessary or advisable to try to write a legal brief simply to identify what the administration considers to be major barriers to international trade.

Ambassador BROCK. We do that today. We have to, in negotiating as we are on a daily basis with the Government of Japan—we have to identify those problem areas both by product and by sector and in both governmental and nongovernmental terms.

The listing of such is essential to both the bilateral and to multilateral negotiations. The only constraint we have, Senator, is there are so many barriers, as the Secretary referred to, as in having enough time to devote the resources to getting a comprehensive look.

Senator DANFORTH. Well, I don't think anybody would intend to place on you an impossible administrative burden to point out each and every conceivable barrier that anybody might suggest exists. And it would be impossible and is not called for.

But what is called for in the bill, and what is done now, is a systematic presentation to the appropriate committees of the Congress of those significant barriers which do exist without necessarily identifying what provisions of law they might violate.

Ambassador BROCK. Well, the law which created my office clearly restates the constitutional principle that we are jointly responsi-

ble to the President and to the Congress. And are required to report to both. And I take that as a serious mandate to provide the information that you request.

Senator DANFORTH. Now with respect to amendments to section 301, as proposed in the legislation, it's my understanding from the testimony of each of you that the notion of equity in market access is something which is supported by the administration. However, as you say, Ambassador Brock, in your testimony, "However, to establish reciprocity on a bilateral, sectoral or product-by-product basis would undercut any realistic negotiating position."

Let me first ask you. What do you mean by "bilateral?" Does that mean simply toting up exports and imports from a specific trading partner?

Ambassador BROCK. Yes. I think that would be a tragic mistake.

Senator DANFORTH. I don't know of anybody who suggested that.

Ambassador BROCK. No. But the reason I mention it is to avoid the subject because there has been so much conversation about Japan that I think it is just well to state in the matter of the principle of the case to don't judge our trade policy country by country.

Senator DANFORTH. I would only note that I don't think it has been anybody's suggestion that reciprocity is defined as meaning equality in exports and imports with a particular country, nor do I believe that anybody has proposed sectoral or product-by-product reciprocity. Rather, the question is essentially equality in opportunity.

Ambassador BROCK. There is at least one bill before the House which does suggest the requirement for equivalent balance. Perhaps Japan per se, and I think perhaps more than one. So that's a problem for us.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman.

Mr. Ambassador, the legislation now being considered grows out of the conviction on the part of Senator Danforth and myself and other Senators that the existence of nontariff foreign trade barriers is a major trade problem. Secretary Baldrige's statement has some forceful language indicating his agreement with that. Yours is a little more circumspect. You state GATT's seeming inability to deal with new forms of areas in trade distortion.

So I would like to first ask you: Do you agree that nontariff foreign trade barriers are a major trade problem that must be dealt with?

Ambassador BROCK. Absolutely.

Senator MITCHELL. And, second, if that is the case, what has prevented their removal? Is section 301 inadequate? Or has it simply not been used as fully as it might have?

Ambassador BROCK. As I have tried to suggest in my statement, both U.S. law and international agreements have tended to focus on the exchange of tangible goods. There is no international agreement at all to cover the whole service sector of the enormous range that that encompasses. And our goal is, clearly, to have the GATT extended to include services and investment.

A modification of 301 would strengthen our negotiating hand in that respect. And we would like to pursue that with you.

Senator MITCHELL. That wasn't precisely what I had in mind, because I don't regard the nonexistence of provisions dealing with such matters as a barrier. I was referring more to some of the specific barriers that Secretary Baldrige identified in his statement.

Ambassador BROCK. I understand what you are saying but I tried to say in my statement, and I will state it as clearly as I can here, that the best way to deal with those barriers is in a multilateral framework which has established codes of conduct, and an appropriate dispute settlement mechanism for the bringing of such complaints. There is not such for it today. And that's what we seek to achieve.

Senator MITCHELL. That leads to my next questions. One of the major provisions in S. 2094 is, in my judgment, a major provision which is the introduction of the concept of the lack of reciprocal foreign market access to the U.S. commerce as specifically being among the foreign acts, policies, or practices against which the President could take retaliatory action. That's one of the principal motivating forces behind this legislation.

Now in your statement, you state on page 12 in the middle of the first paragraph, and I quote, "Under no circumstances should reciprocity-type language constitute a new independent standard for the unilateral action under section 301 authority." Are you referring to that provision in the legislation in your statement?

Ambassador BROCK. I am trying to say that any legislation—this bill or any other—which would mandate a course of action on that sole ground would severely constrain our negotiating opportunity to remove the barrier.

Senator MITCHELL. Well, of course, the provision does not mandate. It identifies it as being among the foreign acts, policies, or practices against which the President could take retaliatory action.

Ambassador BROCK. If it is one of the problem areas which we identify, then that doesn't bother me as long as it is defined as such. What I am worried about is creating a new, independent course of action that the decision could be based on that alone. I think that would be dangerous.

Senator MITCHELL. Well, then, specifically, do you support that provision of S. 2094? And so there can be no confusion, I will restate it.

Ambassador BROCK. I think I would like to refrain from a specific answer until I see if, in fact, it is written in the precise context that we would like in a larger bill.

Senator MITCHELL. Secretary Baldrige, could I ask you the same question? The provision in S. 2094, which I regard as really the heart of the legislation, introduces the concept of the lack of reciprocal foreign market access to U.S. commerce as specifically being among those foreign acts, policies, or practices against which the President could take retaliatory action. Now that's not a mandate. It simply identifies them. Do you support that concept?

Secretary BALDRIGE. I feel the same as Ambassador Brock. That clearly is one of the important issues that we have to address as an administration working with Congress. As I have indicated in my testimony, the administration may be willing to consider new statutory authority permitting trade complaints based on inequitable market access.

But it's difficult to define that authority without getting perhaps into areas that would hurt rather than help our whole trade situation. So we are in the position now of saying, yes, as an administration, we will study that, but we do not want to take a firm position on that right now.

Senator MITCHELL. But your answer relates to language. But my question was, do you support the concept of including that as a practice against which the President could take retaliatory action?

It seems to me that if you agree there is a problem and you agree that something should be done about it, then identify it as something which the President could take action against. Not mandating; could take action. It seems to me to follow inexorably from acceptance of the premises that led to this legislation.

Ambassador BROCK. I don't think either one of us is objecting to the concept of considering this in a final determination as to what we would do. I think what I object to is using it as the sole cause of action and the one controlling element in the decision. Certainly, we have to take it into consideration and would do so.

Senator MITCHELL. My time has expired. I will pursue that later.

Secretary BALDRIGE. Senator, I would agree with that absolutely. We would have a very big problem with having that considered as the sole reason for action. But taken in a group, in the context——

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, you are being very gracious.

Senator DANFORTH. Our real chairman is here. [Laughter.]

Mr. DOLE. No. Go ahead. I want to hear what you say first. [Laughter]

Senator MOYNIHAN. What I want to say I want to say to Secretary Baldrige. We don't often see him before this committee. And Ambassador Brock is such an irresistible person. It doesn't do any good to ask him questions because you always end up agreeing with his answers. [Laughter.]

There is an issue of performance which I think the administration has not addressed. They are not new in this respect. The previous one had the same problems. But this is said to be a business-oriented administration. We hear that. And you are expected to enforce the laws and pursue the policies that proclaim reciprocity. Now there is a specific. There's one company left in America that makes portable typewriters. All the others have been put out of business by the Japanese who did so by dumping, one of the oldest problems of international trade. Dumping products below cost until competitors are wiped out, and then enter into an amazing monopoly situation in the market. One company is left.

Dumping was clearly established in 1975 and 1980. The International Trade Commission unanimously found injury from this dumping in May 1980. Now, Mr. Secretary, it is in your power to impose countervailing duties. You have the right to tell the customs service to add to the tariffs on these items because of an unfair trade practice. One of the oldest recognized practices. But you haven't done so, sir. And we see you; we write you. And we get back incomprehensible letters and nothing happens.

Secretary BALDRIGE. You want me to answer about the incomprehensibility of the letters or the theory in general? [Laughter.]

Senator MOYNIHAN. There's one part that I understand. You said in your letter—I understand these things. I used to have to write letters like this too. [Laughter.]

It says, "Dear Senator Moynihan, the Department of Commerce [DOC] administers the antidumping law in a straightforward objective and fair manner." I know that.

Secretary BALDRIGE. I agree with that.

Senator MOYNIHAN. Sir?

Secretary BALDRIGE. I could agree with that.

Senator MOYNIHAN. You signed the letter, sir.

Secretary BALDRIGE. Well, part of the problem with antidumping laws is the time that it takes to conduct the investigation.

Senator MOYNIHAN. Eight years and one company left. Eight years.

Secretary BALDRIGE. May I say I wasn't there the first 7. [Laughter.]

The idea that the ITC found dumping, Senator, I think perhaps is an error. They found injury. It's up to us to determine whether there is, in fact, dumping. Now we have to do that by a very complicated process. In this case, it entailed going to Japan, comparing whole market pricing, comparing costs in the Japanese cost system, to make it comparable with the alleged dumping actions in the United States.

After the ITC action in the case you are talking about—at least I believe it is the case you are talking about—we did find that, because of the currency change—the ratio of the yen to the dollar—the subsidies were much lower or the dumping part was much lower than was originally estimated.

Therefore, we were unable, at the time, to put in penalties or countervailing duties. That subject is still being studied. But at least it is being studied with the idea that we want to narrow that difference as quickly as we can on the yen-dollar relationship, and some of the factors that go into this so that we can take action.

And I might add, Senator, in the case of the steel industry, as soon as we found or thought there was any possible basis for injury, we moved immediately. The first time we figured that that could be the case was in August of last year. We moved as quickly as we could; put in self-initiated cases on the steel dumping and subsidy practices from the EC. Put up seven of them. Won all seven as far as the ITC was concerned. The ITC found injury in every one of them. I think we are moving quickly.

But the case you referred to is an extremely complicated, technical accounting, marketing kind of a case.

Senator MOYNIHAN. Fair enough, Mr. Secretary. It is my understanding that dumping was indeed established. And it may be that I am misinformed in that, but I would ask you to check it for me.

Secretary BALDRIGE. I will.

Senator MOYNIHAN. We will leave you with that thought. Ambassador Brock knows our view that the self-initiated 301 actions are essential to the success of the Tokoyo round agreement.

Mr. Chairman, if I could put in a letter that Senator Goldwater has sent me about the Smith-Corona matter.

Senator DOLE. Is that typed on a Smith-Corona?

Senator MOYNIHAN. It's the last Smith-Corona in the Senate Office Building.

[The letter follows:]

BARRY GOLDWATER
ARIZONA

United States Senate

WASHINGTON, D.C. 20510

COMMITTEES
INTELLIGENCE, Chairman
ARMED SERVICES
Tactical Warfare, Chairman
Preparedness
Strategic and Theater Nuclear Forces
COMMERCE, SCIENCE, AND TRANSPORTATION
Communications, Chairman
Aviation
Science, Technology, and Space
INDIAN AFFAIRS

February 17, 1982

The Honorable Daniel Patrick Moynihan
Member, Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Pat:

It is my understanding your Subcommittee on International Trade will hold hearings on or about March 25 concerning reciprocity legislation. Because it is directly related to the subject of the hearings, I am enclosing a copy of testimony given by George Burns of Smith Corona before a House trade panel in December. Mr. Burns' statement reveals with clarity the fact that our present law lacks an effective and efficient means of resolving trade disputes, even where illegal trade practices and the absence of reciprocity are well documented.

Although Smith Corona followed existing procedures in good faith and proved dumping by the Japanese portable electric typewriter industry, the dumped imports continue to pour in and the firm's survival is in doubt. Three other American typewriter firms have closed large domestic manufacturing facilities and begun supplying Japanese-made portables. A fast, effective remedy could have prevented that result.

Part of the problem is the incredible length of time it takes American manufacturers to pursue current procedures. It has taken Smith Corona eight years to carry on its case before various executive departments, courts and commissions and it still is seeking relief. Smith Corona claims another aspect of the problem is delay in enforcement of trade cases once an illegal foreign trade practice is proven.

I hope the material will assist you in identifying serious gaps in our trade laws and in developing effective and practical remedies which will help establish true reciprocity in our trade dealings.

With best wishes,

Barry

Barry Goldwater

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Mr. Ambassador, when you last appeared, I asked you how far in your view Japan had gone in reducing this nontariff trade barriers in actions. That was in January or February of this year. Your response was that they have moved, say, 10 or 15 percent of the way to reduce, in your judgment, trade barriers.

In recent discussions with the Japanese Foreign Minister when he was here—maybe he is still here—I understand he said that Japan and the Japanese Government will undertake with a sense of urgency a further action to reduce trade barriers of our products to Japan.

What other information did he give you or members of the administration? That is, how far are they going to go, where are they going to go, and what's their timetable according to your best judgment?

Ambassador BROCK. We had breakfast together this morning. He, I think, left immediately thereafter.

I do not have any specific information as to——

Senator BAUCUS. Could you speak up a little? It's hard to hear.

Ambassador BROCK. As I said, we had breakfast this morning, and obviously, discussed the subject. I do not have, nor did he give me, specific sector-by-sector commitments. I do feel that they are thoroughly aware of the problem and are consciously trying to find ways to remedy it at the earliest moment. But what precise actions may be taken, what precise timetable, whether it's a matter of weeks or very few months, I cannot say. I think that would have to depend on them.

We have, in this administration—and I think with the support of Congress—done all that we can do frankly in convincing them that the problem is very, very serious. The steps that will have to be taken now will have to be taken by them. And if they are inadequate, then we will have to choose a different course of approach.

Senator BAUCUS. Might I ask how specific you were in your requests of him of his Government?

Ambassador BROCK. We've had very specific meetings. Dave MacDonald, my deputy—Ambassador MacDonald was in Japan last week. We have given them a whole range of subject areas, which John Glenn, as a matter of fact, referenced this morning. We've mentioned those product sectors where we know that we have a product that is at least equal to or better than theirs at a better than competitive price, and in which barriers do exist. We have identified those for them, and we have asked for action.

Senator BAUCUS. I don't mean to inappropriately draw out of you what you think you should not appropriately say, but could you be more specific. That is, what sectors and what timetables? Did you say to him that there will be reciprocity/protection legislation if there is not x movement within y period of time?

Ambassador BROCK. Well, I have mentioned that there are 263 bills, as far as I know, presently pending in the Congress which have the concept of reciprocity action in some form. That is a majority, and that that indicates a movement here that is subject to very quick action unless some response is made by the Japanese Government.

We have tried not to put an ultimatum on Japan simply because I don't think that is productive.

Senator BAUCUS. I'm not suggesting an ultimatum. You know, private, constructive, friendly advice.

Ambassador BROCK. We have given them that.

Senator BAUCUS. I am not asking for specific information from him, but what's your best judgment as to how quickly they will move and how far they will move. Will they go the remaining 80, 85, 90 percent?

Ambassador BROCK. In those areas which are subject to Government control, and there are areas that are not, which are more societal in terms of the inadequacy of current law—they have nothing comparable to Robinson-Patman, for example, which would be very helpful in our company seeking equivalent market access.

But in those areas, Senator, that the Government controls, I think we will see significant action, I hope, within the next 2 or 3 months. But I don't know how to put anymore precise term on it than that.

Senator BAUCUS. How far do you want to see Japan go to reduce its tariff barriers? Is it your goal to go the remaining 85 to 90 percent?

Ambassador BROCK. Yes; all the way.

Senator BAUCUS. Over what period of time?

Ambassador BROCK. I think very soon because there just simply is not further remaining justification for the imposition of trade constraints on the part of a country that is fully competitive in the world economy. There just simply is not.

Senator BAUCUS. My time is about up, but I would like to share with you an observation I had in talking with members of the Japanese Diet. Particularly, in respect to agriculture. You know, this notion that Japan, Inc., I think, is somewhat a myth. We hear a lot about Japanese consensus. And to some degree there is greater consensus in Japan than there is in this country.

But when I talked to members of the Japanese Diet, particularly those who have urban constituencies, they want more American beef.

Ambassador BROCK. Absolutely.

Senator BAUCUS. And cheaper beef. They want more American grain, cheaper wheat products. Their people want to buy beef at lower prices. I was talking to one member of the Japanese Diet very recently, and he said his wife at a Safeway store here in Washington saw beef at $5 or $6 a pound. And when he asked his wife how much that would be in Japan, she said it would be $30 in Japan. Again, that's an indication of how many Japanese do want more beef. So I think that is a point that we should keep in mind when we are talking to the Japanese.

Ambassador BROCK. Maybe the greatest thing we have going for us is the possibility of a consumer movement in Japan and Europe, because the consumers are being deprived of an opportunity to buy at competitive prices of higher quality products. And we have it.

Senator BAUCUS. Thank you very much.

Senator DANFORTH. Senator Dole.

Senator DOLE. As I understand the general thrust of the statements, you believe that we can work out some agreement with this

committee and the House side on some of the differences in some of the areas. Agreement, of course, would be no problem. And that we can do that fairly soon?

Ambassador BROCK. Yes.

Senator DOLE. Is that the administration's position?

Ambassador BROCK. Yes.

Senator DOLE. Fairly soon, do you mean hopefully the next 3 months?

Ambassador BROCK. Oh, I would like to see it done in the next 3 or 4 weeks.

Senator DOLE. Well, we are working on a budget now. [Laughter.]

Ambassador BROCK. I didn't realize that.

Senator DOLE. We need a little reciprocity there, you might say. [Laughter.]

Ambassador BROCK. If you get the budget worked out in 3 weeks, I will guarantee you that this wouldn't take that much longer, Senator.

Senator DOLE. We are very close in agreement. We have had a meeting. And we have met several times. We may pass this before we take care of the budget. If this has a priority with the administration, we wouldn't want to hold this up. But we do need some reciprocity. And I think it is coming, I hope, soon, while we are still here.

Senator DANFORTH. Could I just interject? I don't want to take your time, but it is my belief we could work out a mutually acceptable bill in a matter of hours.

Ambassador BROCK. It would be a little bit more difficult to do than that, Senator, in terms of being sure that we had covered every base from the several perspectives of the administration's different agencies. But I think perhaps those in this room could work one out pretty comfortably, fairly quickly.

Senator DOLE. Well, that's encouraging because I think you've noticed some bipartisan effort for many of the principles embodied in the bills, and some of the suggestions you've made, so I don't see any real problems.

Ambassador BROCK. Trade policy has always been bipartisan, Senator. It would be a terrible mistake if it didn't remain so.

Senator DOLE. I think it will. No doubt about it. Does the administration object to intensifying U.S. efforts to identifying barriers to U.S. exports in countries in which we have a significant present and future trading relationship?

Ambassador BROCK. Not at all.

Senator DOLE. And are you prepared to take action to attempt to eliminate these barriers?

Ambassador BROCK. Absolutely.

Senator DOLE. I guess that's the same with your Department, Mr. Baldrige?

Secretary BALDRIGE. We could paper the wall right now with barriers that we are aware of. We've got all kinds of lists. It's not a question of an inordinate amount of study. The studies have been made. It has been studied to death. But I concur with the statement that they are there, and we need to move them out of the way in the name of free trade. We are the greatest country in the

world in opening our markets. And what we are trying to do is to get other countries to open their markets as freely.

Senator DOLE. I guess the question I am leading up to is whether or not you have the resources to carry out a fully effective campaign to seek out the barriers and pursue their elimination. I guess I would direct that more to the Ambassador.

I think there has been some concern by some of us on this committee that you may lack the resources to really focus on this area. And if so, the matter should be addressed.

Ambassador BROCK. Senator, we are constrained by the same problems that every other agency is and that you are having to face in your budget problems in the Congress. We are strapped very thin. I think we are meeting our current responsibilities. It would be difficult to add significant new burdens without detracting from some of the tasks we are presently undertaking. I don't want to get into the situation where we spend our time and the staff preparing reports and then having no one to follow up on the reports, and not being able to travel to negotiate, and into the practice. That could be the problem we would have.

Senator DOLE. As you may recall last year, I introduced a bill to add another deputy STR for which there were a number of cosponsors. I am wondering if that, even considering the present budget constraints, would be something that you could accept.

Ambassador BROCK. We have not discussed it with our other agencies or with OMB. Anything that gives us a greater presence in terms of being able to put people on the road to negotiate significant agreements would have a great deal of interest. The problem is that we would have to do it within the current budget, and that would require shifting the resources. The same problem you always have.

Senator DOLE. But if the fact that position were added as a part of whatever package might be put together there and authorization for that—and, again, I am not suggesting you need to start expanding after we have bearly started to contract some of the budget, but this is a very, very big problem that we need to address. And it seems to me that it is a money maker, not a money loser.

Ambassador BROCK. It should be. I would like to say for the record, though, that the support that we have received not only from Mac Baldrige and the Commerce Department, but from the Treasury Department and the State Department has really made it possible for us to do what we are trying to do. We couldn't survive without the active support that we've gotten from these other agencies that are involved in the whole trade question. And it has made a lot of difference.

Secretary BALDRIGE. If he runs a little short, he uses me as his extra deputy.

Senator DOLE. Well, I think you have done an outstanding job working together. And I want to commend both of you for that, particularly, for your very firm position despite some efforts to water it down.

I just have one other question. I know you are going to be meeting in November. And you have talked about the possibility of amending the subsidies code to get greater quality of treatment for our agricultural exports as compared to manufactured products.

Ambassador BROCK. Right.

Senator DOLE. And that's a matter of great interest to many of us on this panel. That is still the aim—that effort will be made?

Ambassador BROCK. Yes, sir. We have met with a number of countries. And in this case, I have had the very active and very effective support of Jack Block, the Secretary of Agriculture. And that's helping. What we do hope to achieve is a broad consensus among most of the smaller countries and the primary producers, such as ourselves, Canada, Argentina, and Australia, that would lead to a strengthening of the agricultural code. It just doesn't make sense to have an administrative level meeting and not talk about agriculture. It's one of the principal areas of conflict in the trade community.

Senator DOLE. Thank you.

Senator DANFORTH. Mr. Bradley.

Senator BRADLEY. Thank you, Mr. Chairman.

I have read your testimony. And there are a couple of points that I would like to clarify if I could. The issue, I think, is how to gain access to markets without becoming protectionist. The various reciprocity bills and the various other efforts that the committee has been trying to make in this area have really been made in the hopes of avoiding a return to a protection posture. At the same time, they seek to improve U.S. access to foreign markets. The real issue is whether this should be done with reciprocity as a law or a negotiating objection. In your testimony, it appears that you come out endorsing reciprocity as a negotiating objection. I would like to know if this is the administration's position.

Ambassador BROCK. I think it clearly is a negotiating objective. It is the underpinning of current trade policy. It has been since the inception of the Trade Act of 1934. And remains the underpinning concept of the entire GATT.

Senator BRADLEY. The question, then, is should reciprocity be obtained through a multilateral framework consistent with the principles of GATT, the provisions of GATT, and the 1974 Trade Act, or should we attempt at this stage to go outside that framework with a U.S. reciprocity law?

Ambassador BROCK. One of the provisoes I put in my statement, Senator, is that whatever we do has to be, has to be, entirely and fully consistent with the GATT and our other international obligations. And that it is clearly a preferable route to follow the multilateral approach.

Senator BRADLEY. On page 9, you say:

> Some proposals in the tariff area would provide the President with more flexible authority to modify our international tariff concessions and U.S. tariffs. Such flexibility could provide authority that would assist our efforts to obtain increased market access for U.S. goods.

I have in mind what I hope you are referring to, but are there any specific proposals that you are referring to?

Ambassador BROCK. In that particular section, I am talking specifically about high technology. I make two references to tariff cutting authority. One is I hope that the Congress would soon act to extend section 124 with which you are familiar. What I am suggesting here in the high technology area is the possibility of additional

tariff cutting authority specifically for the achievement of lower barriers in the high technology area.

Senator BRADLEY. So you would be supporting legislation consistent with GATT that would explicitly authorize the President to withdraw, suspend, or modify various U.S. trade obligations, including giving him the authority to reduce tariffs?

Ambassador BROCK. Yes.

Senator BRADLEY. And you would view that consistent with article 28 of GATT, and section 125 of the 1974 Trade Act?

Ambassador BROCK. We would. We view it as an additional authority to help us achieve a reduction of barriers.

Senator BRADLEY. If we did that, would you also think the President and you would pursue vigorously remedies under section 301 of the Trade Act?

Ambassador BROCK. Yes.

Senator BRADLEY. You would?

Ambassador BROCK. Absolutely. I think the two go together.

Senator BRADLEY. I do too. I agree with you.

So that your preference is that this issue be resolved within a multilateral framework with recourse to specific existing procedures using tariff and other authority to obtain access to market?

Ambassador BROCK. Yes. Basically, what I would like to see is a stronger negotiating mandate and a stronger negotiating authority to achieve the reduction of barriers that we all are concerned about.

Senator BRADLEY. I think that one of our concerns is how quickly you would actually move on that if we didn't move in some quasi bilateral way up here. Could you give the committee any indication of how quickly you might try to achieve some remedies through section 301, or using section 125?

Ambassador BROCK. The first step that we have in mind is having gone through the OECD Ministerial and the summit to enhance the political commitment to multilateral solutions, to go to the Ministerial and try to encourage others to join us in specific work programs to eliminate some of these problem areas in very broad categories. That's going to take some time, Senator. It just isn't going to come easy, particularly, when you are talking about something as complicated as services or as politically sensitive as investment or agriculture.

But the process has to begin. And we would like to do that as quickly as we can.

Senator BRADLEY. If the Congress did go outside the multilateral framework by enacting unilateral reciprocity legislation, do you fear retaliation from sources as trading partners in Europe, or even Australia, with whom we have a trade surplus?

Ambassador BROCK. Yes.

Senator BRADLEY. Thank you.

Senator DANFORTH. Senator Bentsen.

Senator BENTSEN. Thank you very much, Mr. Chairman. Mr. Chairman, you stated that no one in Congress considered reciprocity to be an equivalence of exports and imports with any given country. Unfortunately, some Members of Congress have stated that this is their understanding of reciprocity, and they have introduced bills to that effect. It is important to stress that such an ap-

proach is both superficial and self defeating. For example, as was pointed out by Senator Bradley, if we followed that approach in regard to Japan, the European Economic Community could do the same to us in order to eliminate our trade surplus with them. I think the chairman has done a service in putting an end to that point of view; significantly, those espousing it have been very quiet lately, which I am delighted to see.

But I am concerned that the enforcement provisions of GATT are rusting away. For years the executive branch has been refusing to enforce section 301, although it should be enforcing it vigorously. Individual companies often will not initiate such an action. Moreover, it is often the major problems of exporting countries that cause our largest problems, be it the export subsidization policies of the European Common Market, or the investment policies of Canada or the protectionist policies of Japan. What businessman in his right mind is going to start a 301 case on that? It is the Government that should be attacking those policies.

That is one reason why I have introduced S. 4223 with Senator Bradley and Senator Chafee calling for an ongoing study to determine where tariff barriers exist, what the effect of those barriers is, and what action should be taken concerning them. The bill would give you 90 days for the study before the formal consultation. It also contains a last resort measure—the unbinding provision—wherein tariffs actually could be increased or decreased.

But Mr. Ambassador, my specific question is, now that the EEC has challenged Japan across the board, do you plan to follow suit?

Ambassador BROCK. No, sir. Not precisely that form.

Senator BENTSEN. Do you disagree with the approach taken by the European Common Market?

Ambassador BROCK. I have some concern but I am not sure that I am sufficiently familiar with the basis of their case yet to comment on it. I think our attitude has been to first seek the route of bilateral negotiations to resolve the difference. Failing that, to seek, as we have in the case of Canada, for example, a specific remedy on the specific practice. We've taken Canada to the GATT on the FIRA. And we believe we have got a very strong case. We've gone through some consultation. We will be before a panel before too long unless something changes quickly. And I think at least as far as this administration is concerned that is of a more effective route to go in terms of achieving the rates they seek.

Senator BENTSEN. Let me address another point. About a year ago, Mr. Ambassador, I discussed your approaching the GATT over Canada's investment policies. And in one of your recent visits here, I asked you whether you had initiated any action; you told me that you had. But as I understand it, you only brought a consulting action so far.

Ambassador BROCK. That's the first of three steps you go through, Senator.

Senator BENTSEN. I understand that.

Ambassador BROCK. First the consultation, next conciliation, next the panel.

Senator BENTSEN. Do you then anticipate that you will take formal action—GATT action—with Canada over the limitations

they have put on investments and the violations they have made in the trade agreement?

Ambassador BROCK. This is a formal action. It's just the first step of a three-step process. And unless remedy is achieved by some action on their part, we intend to pursue the case to its conclusion.

Senator BENTSEN. I am concerned about the timetable in these cases. For example, the citrus case has been dragging on for about 7 years.

Is there any way that we can expedite that? Spain will join the Common Market fairly soon. That will result in a great increase in the export of citrus, and the problem will be even more difficult.

Ambassador BROCK. In several of the agricultural cases with EC, we have filed action, as you know. Some are close to—we have asked for the second stage on the citrus question, which is our article 23 consultation. We are going to have that before the end of March or early April so that is moving along now. We did not file that action until, I think, late this fall. So I don't think there has been an undue delay insofar as the present process is concerned. The decision to make such a move has been a long time in coming. I accept that.

Senator BENTSEN. Mr. Chairman, my time has expired, but I would ask unanimous consent to put a statement in the record.

Senator DANFORTH. Of course.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BENTSEN

Mr. Chairman, we are letting our trade agreement enforcement laws rust away. The executive is waiting for private business firms to petition but it is obvious few business firms will ever file such a case. A businessman with a complaint about foreign compliance with trade agreements is afraid of retaliation and probably does not have the needed data to support the case. Even more important, he probably does not know what to complain about. The most important illegal trade barriers are the big ones: Europe's agricultural export policy, Canada's investment policy, and Japan's protectionism. What businessman in his right mind petitions his Government to complain about things like that? Only Government can raise such issues.

So I want the administration to wheel out the trade enforcement law, section 301 of the Trade Act. We need more of a trade policy than just "hands off." We need a "hands on" policy when it comes to asserting our trade rights.

What we do not need is to turn to "reciprocity." That policy would authorize—virtually require—the president to close our markets if we do not get as much market access abroad as we give at home. The problem with a gun like that is it won't shoot straight; it may even shoot backwards. Most "reciprocity" bills provide that the President has to act consistently with international obligations. That means we have to retaliate on a non-discriminatory basis. If Japan is our problem, we cannot stop the importation of Japanese cars unless we stop the importation of European cars. And as far as shooting backwards goes, since we have a trade surplus with Europe, there are those in Europe, as well as Canada, Australia, and elsewhere who are just itching to close their markets. In fact, Europe is almost as closed a market as Japan and what's more, it has agricultural export policies—which fly in the face of the GATT subsidies code—that hurt United States exports more than any other single foreign trade barrier. The Europeans who want to close Europe more would love to use reciprocity as an excuse.

We're not helpless. Where we do not have market access, it is because a few State Department bureaucrats do not want to offend some country. So I have introduced S. 2223, along with Senators Bradley and Chafee, to get those bureaucrats thinking aggressively and practically about our trade problems.

If S. 2223 became the trade law and policy of this country tomorrow, Japan would be in real trouble. Europe would have to rethink the effects of its agricultural policies. The world would find itself facing a United States that has done its homework; a United States that knows what its GATT rights are, that knows what really sty-

mies its exports to Japan, and that really knows what it can sell there. The United States under S. 2223 would also know what countries have the same problems we do. Just Monday, the European community began a GATT case against the entire Japanese system. Europe thinks the whole system in Japan—import rules, local laws, distribution systems, monetary policy, everything—nullifies and impairs Japan's trade concessions. Isn't that what we are saying? Where is our Government?

I have had as much frustration with GATT as any member here. But in most cases, we have never used GATT. When we have, the benefits have been quite remarkable. In 1961, we paid for a binding on soybean duties from the European community that has been paying dividends ever since, nearly $7 billion worth of trade last year. And the reason that soybean duty is still there is that to unbind it the Europeans would have to pay an enormous price under GATT rules. Analyzing our trade problems and our rights under the GATT is what USTR does best; it is what it is there for. The debate about whether the administration should support reciprocity or not detracts from our ability to enforce our trade agreement rights. I think that debate should end and the administration should begin an active, aggressive enforcement policy along the lines of my bill. That is what I want.

Senator DANFORTH. Senator Symms.

Senator SYMMS. Thank you very much, Mr. Chairman. And, Mr. Ambassador and Mr. Secretary, I would like to pursue right along with the questions that Senator Bentsen was asking. I also have introduced a couple of bills on reciprocity in the subject and have cosponsored some that my colleagues have introduced. But Senator Bentsen touched on a very important point that we do have section 301 in the law now. And there has been, I think, too much of a hands-on policy. And when you take the instance, say of the obvious keeping of American beef out of the Japanese market issue that we are all very well aware of, some of these companies that are exporting this beef are very small companies. And they are somewhat afraid to go file a 301 case because they don't want to have a nontariff barrier thrown up to keep out the product that they may be trying to export to Japan.

Is there any reason why you couldn't start filing cases on behalf of a class of exporters? Just do this so you don't allow any company to get caught in a crossfire of nontariff trade barriers?

Ambassador BROCK. We have no reluctance to proceed on these sort of cases. We do have to have full industry support, obviously. And that is generally indicated by their filing a complaint. But I'm not unwilling to pursue that action if it appears to be the only course we have or the best course we have available to us.

We've been operating in that particular instance under an agreement of some duration, achieved by my predecessors. We have pressed very hard for the Japanese to move up the talks to start dealing with both beef and citrus. And, hopefully, we will be able to make some progress in that area. But as long as that agreement exists, we are somewhat constrained in the GATT action we can take against what is clearly a GATT illegal action on their part.

Senator SYMMS. Well, I guess what the thrust of my question is is that it is well and good for us to discuss. And from your answers this morning I would have to say I have liked the answers. They are reassuring. However, if there is going to be any reciprocity developed, particularly with the Japanese in this case, it would appear to me that we need to really start enforcing the laws that are already on the books very aggressively rather than just talking about giving more authority to the President. I have introduced a bill that would do that.

Ambassador BROCK. Senator, I absolutely agree. There are times, though, where we are constrained by a bilateral agreement that has been signed. And that does bind us until the term expires on the agreement.

Senator SYMMS. Is there any reason why we can't file some suits though on behalf of the United States or on behalf of a group of people so that they would finally maybe get the message?

Ambassador BROCK. It would be difficult in this area. In other areas we can. But we will explore that as a possibility.

Senator SYMMS. Secretary Baldrige, would you wish to comment on that? I don't think you would have the authority to file those suits, but you say you have got the paper to paper the walls with examples.

Secretary BALDRIGE. Well, Ambassador Brock is the expert on this. But I have noticed that section 301 really hasn't been tested all the way. It has some vagaries; some uncertain ground there. It provides that the President can take action to enforce U.S. rights under trade agreements if they are unjustifiable. You know, violating international law or if they are discriminatory, or if they are otherwise unreasonable.

Well, your idea of unreasonable and mine and someone in Japan may be quite different. The fact is that there just hasn't been that much use of 301 in the past. And what both Ambassador Brock and I indicated in our testimony was that—particularly in the area of services—we would agree with the need for some statutory backing up of the President's authority in those areas that would help to make it more specific. I think that's the most I could add in that area.

I do think that where we have as many nontariff barriers as we perceive in Japan, I suppose you could file cases from now until the year 2000. I think that is best resolved by negotiations with the country involved because that is a very difficult thing for Japan to do. It's not as easy as them just saying, well, we will agree to do this. They have a very complicated domestic problem in opening up these markets. And we all ought to be aware of that. I do have some sympathy on that. But before we see any action, we are going to have to see a realization, an understanding, on the part of the Japanese that this is, in fact, in their own self-interest, which we believe it to be.

Senator DANFORTH. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman. First of all, I wish to join the others in commending you, Mr. Ambassador, and Mr. Secretary for working together. I think you are working in a very difficult area where you even don't speak the common language with people you are dealing with. And considering the difficulty you have with the Congress, even though you speak the same language with the members of the Congress, I can understand what difficulties you run into.

Ambassador BROCK. Sometimes I think there is a foreign language up here, Senator. [Laughter.]

Senator MATSUNAGA. It might make it simpler because oftentimes we don't understand each other anyhow. But while I fully applaud your espousal of free trade, sometimes it gets to a point where free trade can mean the displacement of industries, employ-

ment in our own States. And then, of course, we begin to worry. With reference to sugar, for example, I am wondering what can be done—as you probably know, the Hawaiian sugar industry is practically going out of business. One major sugar company has announced the closing of one plant; a possible closing of a second. And another sugar company has laid off employees and put the rest on part-time basis because of a situation wherein we find foreign sugar being sold in this country by exporting nations at below their cost of production.

For example, the cost of sugar in the European Community runs about 27 cents a pound. Of course, they sell because of government subsidy of 14 cents a pound, even as low as 9 or 10 cents a pound. Of course, if that sugar were to be directly sold into the United States, I suppose that would constitute a violation of the antidumping laws which we have. Or do we have antidumping laws in agricultural products? Do we?

Ambassador BROCK. Yes.

Senator MATSUNAGA. We do. Assuming that we do, now they sell it to third nations, which, of course, will in the case of, say, Australia; New Zealand, because of the reduction in price they are forced to reduce their price also. And they bring it into the United States. And then the domestic market is forced to compete at a price way below cost. The average cost of production in the United States last year was about 25 cents per pound, which is even less than the cost of production in the European Community.

But then because sugar is sold as low as 9 cents a pound, and at one time even 8 cents a pound, Hawaiian sugar is forced to sell at far below cost. What can be done in situations such as this to save an industry which provides only for domestic consumption? As you know, sugar is an import commodity. We don't grow enough sugar in the United States to provide our own needs. We import 45 percent of our needs.

In order that we may continue to provide that 55 percent, that industry truly needs some assurance that the sale price will be at least what it cost them to produce that, and at least the cost of production in the foreign markets.

Ambassador BROCK. Senator, we accepted a 301 petition on that late last fall. We held our first public hearing in November or December. We asked for consultations with the Community and had that first consultation in February. It was not acceptable. The response was not. We have moved to the second stage of the GATT process now, which is the conciliation stage. We will have that in April. If that is unsatisfactory, we would expect to proceed to the final dispute settlement, which is the final process.

We have to have a decision by June under the 301 case. The timeclock began when we accepted the petition. And we have pressed very hard for the Community to redress the grievance or to respond in some fashion as quickly as possible.

Let me say, though, one additional comment. The Congress enacted sugar legislation in the farm bill last year raising the support price. One of the complicating problems that process has faced in this area is that when the Congress raises the price of sugar, they then create a new market opportunity for alternatives or substitute products. In this case, corn sweeteners. And I'm afraid that the net

consequence will be an increase in consumption not of sugar but of corn sweeteners, which might undercut the domestic program even more than imports do.

Senator MATSUNAGA. Well, we are not too concerned——

Senator DANFORTH. I think your time has expired. We have a vote on the floor.

Senator MATSUNAGA. Time just leaps by.

Senator DANFORTH. Senator Mitchell has one question.

Senator MITCHELL. Just briefly, Secretary Baldrige, your colloquy with Senator Moynihan highlighted what I think is one of the real problems with our trade laws in the lack of support among the American people for them. And that is the enormously cumbersome process—time consuming, expensive process—in our current antidumping and countervailing duty laws. They have become, really, sort of a lawyers' WPA. And they are endless; very expensive for small companies. In effect, what we have done is we have established an idea which simply cannot be realized in practical effect.

And I just take this occasion to call to your attention legislation which I introduced earlier this month to rationalize and simplify the process to lower the standard for the threshold preliminary determination, which now stands as a serious bar to proceedings to reduce the litigous nature of the process. As you now know, they can go to trial court and then appeal and almost everybody does that because of the economic involvement. The bill also creates an office within your department to assist smaller firms for whom relief is effectively denied because of the lengthy nature of the proceeding.

And I would commend it to you and ask if you would take a look at it, and get back to me and the committee on what your concept of it is. I hope to have hearings on it soon. I think it is an important step we could take that would restore the American public's faith in the whole concept of our trade laws by making the kind of relief that the law now says is available—and making that a reality in every day life practically available, which it is not at this time.

Senator MATSUNAGA. Mr. Chairman, could I ask a one fast yes or no question?

Senator DANFORTH. Yes.

Senator MATSUNAGA. The question is will our Caribbean base initiative prejudice in anyway our unfair trade action under the section 301?

Ambassador BROCK. We don't think so.

Senator DANFORTH. I have heard several Senators who have questions for the record that they will want to submit to you.

[The questions follow:]

QUESTION FOR AMBASSADOR BROCK

Mr. Ambassador, one area that you refer to in your testimony for further examination is the acquisition and protection of industrial property rights. I agree. I have constituents in the agricultural chemical sector that for years have had industrial property rights problems in foreign markets—particularly in non-market economies and third world countries. I am now informed that negotiations of the Paris Convention for Industrial Property Rights are leading to further erosion of some basic principles that protect the value of invention, research and development.

It would appear that we are witnessing the emaciation of the industrial property rights system that, for decades, has served as a fundamental factor in global technological and economic development. This erosion will also undermine the competitive position of U.S. products that rely on technological and development factors for their success.

Mr. Ambassador, I would like to ask you to pursue the subject of industrial property rights with a view to submitting proposals that might be included in the trade legislation under consideration.

Senator DANFORTH. Let me just ask you two brief questions. Do you believe that denial of fair market access by a foreign country is an unreasonable restriction which the President could take action against under current law?

Ambassador BROCK. Yes. It is very difficult to determine what unreasonable is. If it is a word of law——

Senator DANFORTH. The question is whether denial of fair market access by another country would be an unreasonable restriction? Whether that would meet the definition.

Ambassador BROCK. Yes. It certainly could be.

Senator DANFORTH. The second, do you agree that under current law, section 301 of the Trade Act, that the President is authorized to take even GATT illegal retailiatory action to protect U.S. trading interests?

Ambassador BROCK. Yes, he is. But we would be subject to compensation and it would be a self-defeating action. And I would not support such action.

Secretary BALDRIGE. And it has not been done to date.

Senator DANFORTH. Let me suggest the following. I think that we are making real headway. As I understand it the administration would like to get some bill passed this year; clear the air on the subject. And I think that it would be possible in a fairly short order, at least from our standpoint, to put together a bill which draws upon various ideas that have been put together by members of this subcommittee and other Members of the Senate—and which is acceptable to the administration.

My suggestion is that the staff of the trade subcommittee get together with whoever you designate, the STR or Commerce or whoever, and that we try our hand at actually getting a meeting of the minds and compatible legislation.

I think that it should be possible to move reasonably quickly with this legislation. And I also think—and I said this to you privately, Ambassador Brock—that one of the concerns of the administration, which I understand, is that any such bill could become a Christmas tree. And that everybody with any sort of idea would just put it on as an amendment. I would say to you that if we can reach a meeting of the minds, I will do my best throughout the proceeding to prevent this from becoming a Christmas tree, and to assure that any bill which does reach the President for signature is one which is very close to what we forecasted.

Ambassador BROCK. I appreciate that very much, Senator. We simply cannot support a Christmas tree, and would be forced to vigorously, vigorously oppose it.

Senator DANFORTH. I don't think you would get one.

Ambassador BROCK. Thank you for the assurance.

Senator DANFORTH. But I would hope that we could proceed with some dispatch to put together a mutually agreeable paper.

Ambassador BROCK. We would welcome that opportunity. And I want to say thank you for a very constructive hearing. I appreciate it.

Senator DANFORTH. Thank you both.

Secretary BALDRIGE. Thank you.

[Whereupon, at 11:50 p.m., the hearing was adjourned.]

[By direction of the chairman the following communications were made a part of the hearing record:]

1346 Connecticut Avenue NW Washington D.C. 20036 (202) 785-4835

consumers CWT for world trade

Statement on S.2094, Reciprocal Trade & Investment Act of 1982

It is a matter for regret that the Subcommittee for International Trade could not hear private sector witnesses for more than a single afternoon's session. We consider S.2094 an important legislative proposal which deserves more extended hearings and discussion than it has received. Nevertheless, CWT appreciates the opportunity to put our views on record in writing.

Our comments will be addressed to those sections of S.2094 that deal with reciprocity in trade. These expand upon the existing Section 301 of the Trade Act of 1974, first by directing the Special Trade Representative to assemble a list of actions by major trading countries believed to limit American access to those countries' markets and, second, by requiring the President to publish the list and then to propose measures he may take if need be to redress any imbalance resulting from other countries' actions.

Since Section 301 already gives the President extremely far reaching authority to retaliate (the 1979 amendments to Section 301 appear to leave the President free to decide and to act without reference to any standard, without having hearings or providing other procedural safeguards, and without taking into account international obligations), it must be supposed that the purpose of S.2094 is to put pressure on him to use his retaliatory powers more fully than Presidents have to date. In short, reciprocity is to be achieved by encouraging the incumbent President to exercise powers that his predecessors have chosen, with minor exceptions, not to exercise.

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We have two objections to this approach.

First and principally, retaliation against other countries' alleged unfairness in trade is to take the form of restrictions on imports. Specifically, if the Japanese government has chosen to impose burdens on its consumers by maintaining trade barriers, then we will impose like burdens on our consumers. In economic terms, this makes little sense. In terms of equity, it is scarcely fair to American consumers. Whether it will in fact promote exports or remedy our merchandise trade deficit is wholly uncertain.

Second, S.2094 calls on the Executive Branch to make unilateral judgements about other countries' trade practices, and on the basis of these judgements to retaliate. It is difficult to believe that our trading partners would accept this procedure placidly. The expectable response would be for them to prepare their lists of our practices and to make it known that they were ready to counter any new American restriction with restrictions of their own.

In any case, their domestic political pressures would make some counteraction almost inevitable. The result would be to shrink world trade further, to the general detriment and specifically to the disadvantage of consumers. CWT sees no virtue in a policy having these prospective consequences.

It is not as though the United States has no other recourse Article 23 of the General Agreement on Tariffs & Trade--the nullification and impairment article--provides a very broad basis for dealing with non-reciprocal treatment. All of our major trading partners are

contracting parties to the GATT. If we believe that they are not carrying out their GATT obligations to us or that they are otherwise failing to afford us reciprocal trade treatment, we have a contractual right to ask for redress under procedures already agreed to by all concerned.

Resort to Article 23 is a serious step. CWT would not wish that it be taken. But if the United States government believes that its interests--which ought to be considered to include preeminently the interests of American consumers--require further action to remove barriers to foreign markets, then our formal international commitments and regard for sensible policy argue that we should forego unilateral measures in favor of invoking the GATT.

Summarizing, CWT opposes S.2094 as promising to put added costs on consumers and to further restrict consumer choices. We believe also that the procedure proposed in S.2094 is calculated to lead to commercial hostilities and to reduce trade rather than to open markets wider for our exporters. Finally, if in the end the official decision were to be to seek trade redress, we note that the GATT provides ample room for doing so.

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TESTIMONY IN OPPOSITION TO "RECIPROCITY"
IN U.S. TRADE LEGISLATION

Statement by Sheldon Richman
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before the
International Trade Subcommittee of the
Senate Committee on Finance

Thank you, Mr. Chairman and members of this committee for the opportunity to present the views of the Council for a Competitive Economy concerning U.S. Trade Policy. Members of the Council are not only committed to a free and competitive market economy, but actively strive for principled opposition to government regulation as well as subsidies, protection, special privilege and taxation. Additionally, the Council stresses the justice of economic freedom, voluntary trade, private property and individual rights. I am speaking today on behalf of over 1,000 members representing a wide variety of businesses from each of the fifty states.

Mr. Chairman, the current brouhaha over trade reciprocity is puzzling. Reagan administration officials and some members of Congress, including yourself, Mr. Danforth, have expressed an interest in seeing that the U.S. government should have the authority to impose trade restrictions to match Japanese barriers against American exporters' products. This is puzzling because, without adding a single law to the books, we have the authority to bring about reciprocity if we wish. What's more, it requires

no lengthy hearings or other official procedures, no lobbying. It doesn't even require the taxpayers' money to implement. Here's how it works:

Let's say I produce blackboard erasers, and the Japanese government hinders my trade in Japan. If reciprocity matters to me, all I have to do is refuse to buy a Japanese product. My employees can do the same. Voila! Reciprocity. Of course, we might discover that depriving ourselves of high-quality, inexpensive products is a peculiar way to inflict retribution on someone else.

The advocates of reciprocity (let's call them reciprocalists), suspicious that I am making light of the matter, are not likely to be satisfied with this position. Individual choice in trade issues is not what they have in mind. They want the U.S. government to force all Americans to forego Japanese products. While this move to reciprocity may yet turn into a legislative juggernaut, thankfully its critics have been active. They have noted that reciprocity will mushroom into open trade warfare because it is vague and discretionary. They have also said that now-thriving U.S. export industries are sure to be the prime casualties of this misguided policy. I am curious to know if the reciprocalists realize that the policy is necessarily unjust and that it certainly won't help the wronged parties. As Adam Smith wrote in The Wealth of Nations:

> ...(I)t seems a bad method of compensating the injury to certain classes of our people, to do another injury to ourselves, not only to those classes, but to almost all other classes of them. When our neighbors prohibit some manufacture of ours, we generally prohibit, not only the same, for that alone would seldom affect them considerably, but some other manufacture of theirs. This may no doubt give encouragement to some particular class of workmen among ourselves, and by excluding some of their rivals, may enable them to raise their prices in the home market. Those workmen, however, who suffered by our neighbor's prohibition will not be benefited by ours. On the contrary, they will thereby be obliged to pay dearer than before for certain goods. Every such law, therefore, imposes a real tax upon the whole country, not in favor of that particular class of workmen who were injured by our neighbor's prohibition, but some other class.*

So the illogic of the reciprocity argument is striking. In contrast, the virtue of my notion of reciprocity is that only the people who choose such a policy suffer it.

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* Book IV, Chapter II. Despite this immaculate argument, Smith succumbed to a proposal for limited protectionist retaliation.

The reason that well-meaning people are easily lured into protectionism, even when disguised as reciprocity, is that they look at the world in nationalistic terms. They take what I call the "Olympics view of world commerce." To them the international economy is an arena in which nations compete against each other. In the various contests one nation will win and the others will lose. Curiously, the "losses" get more attention than the "wins." Every American knows about the $18 billion trade deficit with Japan; few know about the nearly offsetting surplus with the European Community.

Even many opponents of protectionism (including Smith, regrettably) operate in the Olympics framework. For example, The Washington Post's Feb. 2 editorial against reciprocity stated,

> True, Japan sells much more to the United States than it buys here. It's also true that the United States sells more--a lot more--to the Europeans than it buys from them. Country-by-country trade never balances.

Good point. But why the preoccupation with national trade activities? Because the statistics are there. And they are there because we have been convinced by political leaders that the Nation is the irreducable unit in many important questions. Trade balances among nations are said to be important, but not those among states, cities, neighborhoods, blocks, households or individuals. Has it occurred to anyone that were Japan to join the Union, the trade deficit would vanish overnight?

Most, if not all, fallacies of international trade are based on the false Olympics view. Contrary to the Post, the "United States" didn't sell anything to the Europeans. And "Japan" didn't sell anything to the "United States." Individuals in both countries did the buying and selling. This is not mere semantic quibbling. The trade activities of individuals cannot be meaningfully added together to reveal the economic soundness of groups. A transaction occurs only when both parties expect to prefer what they get to what they give up. Each comes out with a "surplus." Nations neither win nor lose.

Let's take a simple, concrete example:

Suppose a shoemaker buys a hat from a hatmaker for $50 and sells him shoes for $60. If we combine the transactions, we find the shoemaker "imported" $50 worth of products and "exported" $60 worth. The hatmaker "imported" $60 worth and "exported" $50 worth. Conventional theory would say that the shoemaker, with a trade surplus of $10, is better off than the hatmaker, who has a deficit of $10.

But obviously there are no grounds for assuming either is worse off. Neither would have traded unless he preferred what he got to what he gave up.

Now, imagine that the shoemaker takes in a boarder the following year. Again the shoemaker buys a hat for $50 and the hatmaker buys shoes for $60. But in addition, the shoemaker's boarder also buys a hat for $50. In the second year the shoemaker's household has imports worth $100 and exports worth $60. Is the household any worse off than it was in the previous period? How could it be? Nor is the household at a disadvantage because the hatmaker sold more to it than he bought.

Finally, assume that in the following year, the hatmaker takes in a boarder who makes wood carvings. The shoemaker and his boarder buy hats for $50 each and the hatmaker buys shoes for $60. In addition, the shoemaker's boarder pays $1,000 for a wood carving from the hatmaker's boarder. In the third year the shoemaker's household has exported $60 worth of goods, and imported $1,100 worth of goods. The household has a "deficit" of $1,040. Again, despite these figures, there are no grounds for judging it worse off in any way. Should they be concerned about the outflow of cash? Again, no. Each person chose to pay for the products with money obtained through current income, savings or borrowing. There was no mysterious outflow from the household. As soon as one or the other person believes he is spending too much, he will cut expenditures.

These principles do not change when we switch to nations. Statistics based on arbitrary groupings must mislead because they neglect to trade within the group. National trade balances also omit activites such as services and capital investment which is why few realize that the "United States" will have a $12 billion surplus, all told. Finally, statistics are organized in arbitrary 12 month clusters, though trade need not follow the calendar.

The fallacy of trade "gaps" should be clear now. If Americans sell a total of $X billion in goods to the Japanese and buy a total of $2X billion from the Japanese, there is nothing to worry about. Different people did the buying and selling, and they must have been satisfied with each transaction. Besides, the Japanese will do something with the "surplus" Federal Reserve Notes; they surely don't want them for collecting. (And if they do, they would be giving the American people generous gifts, indeed.)

Were people to stop thinking of trade in nationalistic terms they would naturally stop modifying the word "trade" with the adjectives "domestic" and "foreign." The distinction is superfluous. Trade improves the living standards of individuals through increased productivity and the division of labor. The more highly developed these things are, the better. Trade is clearly more important than national boundaries. In terms of individual well-being, there is no domestic trade or foreign trade; there is only trade.

It must also be emphasized that when an American trades with a Japanese person, neither is doing the other a favor. The failure to understand this is so deep in politicians and others that they seriously advocate stopping trade to hurt the other party!

Inexcusably, the Reagan administration continues its caginess in trade matters. Trade Ambassador Brock and Commerce Secretary Baldridge insist they are for free trade, but entertain measures aimed at reciprocity. This is disingenuous; either they favor the U.S. government's impeding trade or they do not. They should not be permitted to get away with calling for "reciprocal" barriers in the name of free trade. Moreover, they publicly say they oppose legislation and prefer negotiation with Japan. Yet, clearly, they like having the threat of legislation hanging over the Japanese.

When trade analysis focuses on the individual, justice and productivity, unilateral elimination of U.S. trade barriers emerges as the only proper policy. The benefits will be immediate as Americans gain free access to the products they want. People in other countries, seeing such benefits, will likely agitate to have their governments open the door to world trade. But even if they don't, those who practice free trade will be better off. Goods, not money, constitutes wealth. The economic system exists to serve consumers, not businessmen, governments or nations.

Free trade will call for adjustments, just as the introduction of the lightbulb and automobile did. We have not reached the end of change. But adjustments with minimal hardship is swift when the government stays out of the process. Even so seemingly harmless a measure as government trade-adjustment assistance is destructive since it removes resources from the market and impedes workers' search for new, more lucrative opportunities. Assistance is better left to insurance and other private voluntary efforts.

Unilateral dismantling of trade barriers is worthy of a proud crusade in the United States because no one interested in making an honest living should tolerate any policy that erodes those gleaming hallmarks of civilization--trade and the division of labor.

Again, Mr. Chairman, I thank you for considering the views expressed by myself and the Council for a Competitive Economy. I would welcome any questions any of the members of this subcommittee might want to ask.

Mr. Richman's testimony is taken from the March, 1982 issue of Competition, the monthly publication of the Council for a Competitive Economy. Copies of the publication are available on request.

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